TRANSPARENCY REPORT FOR YEAR 2017

OTP Bank România S.A. –Administrated in dual system
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Identification no: RO 7926069
Registered at trade regisrty under no. J40/10296/1995
EUID: ROONRC J40/10296/1995
Registeredat bank's registry under no. RB-PJR-40-028/1999
Equity: 1.379.252.880 RON

CONTENT

INTRODUCTION

This report was prepared in order to meet the requirements of **Government Emergency Ordinance no. 99/2006** on credit institutions and capital adequacy, approved with subsequent amendments and completions by Law no.227/2007, as amended and supplemented, **EU Regulation no. 575/2013 of the European Parliament and Council of 26 June 2013** on prudential requirements for credit institutions and investment firms, the eight part and **National Bank of Romania Regulation no. 5/2013** regarding prudential requirements for credit institutions, with subsequent amendments and completions.

The information contained in this document takes into account the activity carried out during the period 01.01.-31.12.2017, and meets the purpose of transparency and publication stipulated in the above-mentioned regulations and provides an overview of the risk profile of OTP Bank Romania S.A..

1. GENERAL ADMINISTRATION FRAMEWORK OF OTP BANK ROMANIA S.A.

1.1 Shareholder structure

OTP BANK ROMANIA S.A. is a joint stock company managed in dual system, with registered office in Bucharest, 66-68 Buzesti Street, District 1, registered at the Trade Register under no. EUID ROONRC J40/10296/1995, sole identification no. 7926069, with subscribed and paid up share capital with a value of 1.379.252.880 RON, registered in the Bank Register under no. RB-PJR-40-028/ 1999 and is a member of OTP Bank Nyrt. from Hungary.

On 31.12.2017, the structure of shareholders of OTPBANK ROMANIA S.A was the following:

1. OTP Bank Nyrt., Hungarian legal entity, registered with the Trade Register in Budapest under no. 01-10-041585, with registered office in Budapest 1051, 16 Nador Street, holds 5.226.049 nominative shares and a participation to the capital with a value of 1.254.251.760 RON, representing 99, 99992346040119% of total share capital, out of which 859.708.720 RON, 6,558,178.74 USD and 109.999.923, 66 EUR, equivalent to 137.579.199, 58 USD;
2. Merkantil Bank Zrt., Hungarian legal entity, registered with the Trade Register Budapest under no. 01-10-041465, with headquarters in Budapest 1051, 8 József A. Street, holds 4 nominative shares and a participation to the capital of 960 RON, representing 0, 00007653959881% of the total share capital.

1.2 The organizational structure

The Bank is divided into organizational units at the Head Office level, regional centers and in 96 territorial units.

At the Head Office level it functions divisions, directorates and departments.

At territorial level, there are 5 Retail Regional Centers, which are acting independently in relation with the clients and represents the intermediary lead between the Central Administation of the bank and the territorial units alocated.

Regarding the Small and Medium Business Line, this is structured in 5 SME Regional Centers.

Corporate Business Line is present in the territory through 6 Corporate Regional Centers.

The business line for Private Banking and Prestige clients is represented by specialized personnel located in territorial units with portfolio of this nature.

On 31.12.2017 the organizational structure at the level of the central administration of the Bank is organized in 5 functional lines, as follows:

- a functional line directly subordinated to the Chief Executive Officer;
- 4 lines composed of organizational units subordinated to the Deputy Chief Executive Officers, organized in the following areas of activity:
    - Corporations
    - Retail
    - Credit and Risk Management
    - Finance and Planning

An extract of the organizational structure of OTP Bank Romania S.A. on 31.12.2017 is presented in Annex 1.

1.3. The management body

Within OTP BANK ROMANIA S.A. the management body is represented, according to the stipulations of art.3(1) points 1-3 of the National Bank of Romania Regulation no.5/2013, by the Supervisory Board as a management body in its supervisory function, and by the Management Board as superior management.

The competencies and responsibilities of the governing bodies are regulated by the the Constitutive Act, through the dedicated procedural rules, and also by the Organization and Functioning Regulation of OTP Bank Romania S.A.

The Supervisory Board has the role of overseeing and monitoring the decision-making process by exercising permanent control over the Executive Board, as well as the compliance of its work with the strategies and policies adopted.

The Supervisory Board consists of 6 (six) members appointed by the General Assembly of Shareholders and their mandate is four (four) years with the possibility to be re-elected for periods of 4 (four) years.

Members of Supervisory Board

Period 01.01.2017 – 31.12.2017	
Name	**Position**
Kovács Antal György	President
Hanusovszky Judit	Vice-president
Zsakó Enikő	Member
Dr. Rajmonné Veres Ibolya	Member
Csonka Tibor László	Member
Pál-Antal Ildikó	Member

Mr. Kovács Antal György is Chairman of the Board of Directors of OTP Mortgage Bank Ltd. and OTP Building Society Ltd. since 2014. Also, he is Chairman of the Supervisory Board of OTP Fund Management and OTP Mobile Kft. Starting April 2016, Kovács holds the post of OTP Bank Nyrt Executive Board member.

Mr. Csonka Tibor László is member of the Management Board of Merkantil Bank Ltd. and Merkantil Car Ltd. since 2011 and he is a Vice President of Chamber of Commerce and Industry since 2012. In 2014, he became member of the Management Board of Garantiqa Creditguarantee Co. Ltd. as well.

As of 2012, Dr. Rajmonné Veres Ibolya is a member of the Management Board at Merkantil Bank Zrt, as well as at Merkantil Car Zrt. and from October 2016 member of the Management Board of OTP Faktoring Zrt.

Additional information with regards to the members' mandates are presented in the OTP Bank România SA Annual Report, published on the bank's site, on the section About OTP Group-About us-OTP Bank Romania –Reports.

The Management Board is empowered with the current management of the bank by performing the necessary and useful actions for the accomplishment of its object of activity, except for those reserved by the law in charge of the Supervisory Board and the General Meeting of the Shareholders.

The Manangement Board consists of 5 (five) members, appointed by the Supervisory Board. The duration of their mandates is 4 (four) years with the possibility of re-election for 4 (four) years.

The members of the Management Board

Period 01.01.2017 – 31.12.2017	
Name	**Position**
Diósi László	President of Management Boardthe and General Manager(Chief Executive Officer)
Ljubičić Gábor	Vice-President of the management Board and deputy CEO, Coordinator of the Retail Division
Gáldi György	Member of the Management Board and Deputy CEO, coordinator of the Lending& Risk Management Division
Mirică Ioan Dragoș	Member of the Management Board and Deputy CEO, coordinator of the Corporate Division
Cristea Mara	Member of the Management Board and Deputy CEO, coordinator of the Finance and Planning Division

Mr. Ljubičić Gábor has other professional assignments, such as Member of the Supervisory Board at OTP Asset Management Romania SAI S.A., since 2008.

Mr. Mirică Ioan Dragoş holds as well the position of member of the Board of Directors of OTP Leasing Romania IFN SA. since 2014.

In 2017, the management bodies of OTP Bank Romania SA met in ordinary and extraordinary sessions, with the effective participation of the majority of their members, as it follows:

- the Supervisory Board: 4 ordinary meetings and 22 extraordinary meetings;
- the Management Board: 25 ordinary meetings and 136 extraordinary meetings.

From the point of view of ensuring the gender diversity, in the structure of the management body, we mention that during 2017, the structure was the following:

Management Board		
Men	Women	Member no.
80%	20%	5

Supervisory Board		
Men	Women	Member no.
33%	67%	6

1.4 Committees

In order to carry out the activity in accordance with regulatory requirements, the Management Board may set up permanent committees and subcommittees subordinated to them in order to ensure a continuing activity.

The Standing Committees and their subcommittees are analysis and decision-making structures, as well as advisory boards, subordinated to the Management Board, with specific competences for each field of activity, operating on the basis of activity plans.

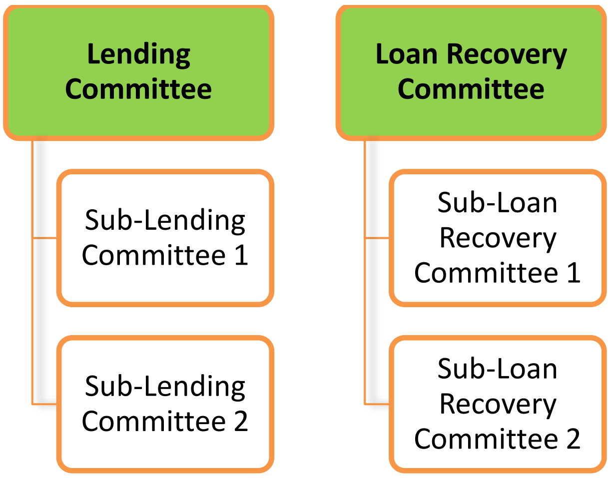
The structure of the Committee direct subordinated to the Management Board in the period 01.01.2017-31.12.2017:

1	Risc Management Committee
2	Asset & Liabilities Committee
3	Product Development, Sales and Pricing Policy Committee (PSPC)
4	Lending Committee
5	IT Development Committee
6	Ethichal Committee
7	Loan recovery Committee
8	Loan Monitoring Committee
9	Committee for the Development of Commercial Activity

Their competencies are defined by the decision of the Management Board from which the decision-making power is delegated and to which they report on the activity carried out. The functioning and structure of standing committees is governed by the procedural rules applicable to each of them, approved by the Management Board in whose subordination it operates, but also by the Organization and Functioning Regulation of OTP Bank Romania S.A.

The establishment of the structure and attributions of the Audit Committee as well as the approval of the Audit Committee Regulation are within the competence of the Supervisory Board.

In order to better manage the process of recovery of bad debts, as well as to organize in a productive way the development of policies and procedures activity corresponding to the lending activity, during 2017, the Management Board of OTP Bank Romania S.A. has decided to set up four subcommittees, distributed as follows:



Within OTP Bank Romania, during 2017, the responsibilities of the Nomination Committee and the Remuneration Committee were exercised by the OTP Bank Romania Supervisory Board. In addition, given the nature and extent of the activities of OTP Bank Romania S.A., it has not been decided to set up a Risk Management Advisory Committee subordinated to the Supervisory Board.

➢ Responsibilities of the Audit Committee

The Audit Committee is a standing committee, which operates independently from the Bank's management, directly subordinated to the Supervisory Board and having an advisory function. The Audit Committee assists the Supervisory Board to carry out its responsibilities.

According to the internal functioning regulation, the Audit Committee meetings shall be held at least on a quarterly basis or whenever it is necessary, at the initiative of the Chairman of the Audit Committee. The meetings may be held also through video-conference. In exceptional cases, when rapid decisions must be made, the Chairman can request that a proposal is submitted for vote by correspondence (e-mail), without summoning a meeting.

During the year 2017, 11 Audit Committee meetings were held, out of which 4 were ordinary videoconferencing sessions and 7 were by correspondence.

The Audit Committee has the following main responsibilities:

- To approve the Internal Audit Statute and the other methodologies specific to internal audit activity, as well as the Audit Plan and the necessary resources related to this activity;
- To monitor the statutory audit of the financial statements in order to analyze the external auditor's findings and recommendations, as well as their implementation status;
- To approve the contracts concerning not forbidden, non-audit services (established according to the applicable legislation);
- To supervise financial auditors and internal auditors activities;
- To oversee the establishment of accounting policies by the Bank;
- To receive and to analyze internal audit reports;
- To ensure timely adoption by the Bank's management of the necessary measures to solve, remedy the internal control related deficiencies identified by the internal auditors;
- To issue useful and efficient methodological proposals regarding the Bank's activity based on the audit reports and on its own findings;
- To keep track of tasks and recommendations made by Supervisory Board in relation to the internal audit and monitor their implementation in practice;
- To monitor periodically the effectiveness of internal control, internal audit and risk management;
- To advise on matters requested by the Supervisory Board;
- To recommend prior approval by the Supervisory Board of the appointment, remuneration and removal of the external auditor of the Bank.

Within the Audit Committee's meetings, the following aspects shall be pointed out:

- the functioning of the internal control system and of the internal audit activity;
- the activities affected by risks that are to be analyzed during the respective year within the internal audit engagements and within those of the Bank's statutory auditor;

- the Bank's compliance with the applicable legal provisions, Constitutive Deed, internal regulations and policies approved by Managing Bodies.

During 2017 the Audit Committee's composition did not change, this being established and approved according to the decision of the Supervisory Board no. 6/21.01.2015.

➢ Responsibilities of the Risks Management Committee

The Risk Management Committee monitors on a permanent basis the significant evolutions that might influence the Bank's risk profile.

The Committee develops risk management policies according to the legislation in force and to the internal regulations regarding risk management.

The main responsibilities of the Risk Management Committee are the following:

- monitors and ensures the information for the Management Board and Supervisory Board, half-yearly and whenever necessary on the problems and significant evolution which might influence the Bank's risk profile;
- submits for approval to the Management Board and Supervisory Board (by means of the Management Board), on a case by case basis, the strategies and policies for the identification, assessment, monitoring and control of the significant risks in compliance with the legislation in force and group policies;
- submits for approval to the Management Board and Supervisory Board the internal regulations which follow significant risk management policies;
- independently analyses any violation or non-observance, of the strategies, tolerance/risk appetite or of the risk limits and take decisions to avoid such situations;
- proposes for approval to the Management Board and Supervisory Board proper policies and processes for identifying the individual exposures to persons which have special relationship with the bank.
- proposes for approval to the Management Board and Supervisory Board the internal process for the assessment of capital adequacy to risks;
- proposes for approval to the Management Board and Supervisory Board, the Risk Strategy of the Bank including on the risk appetite or risk tolerance of the Bank at a level that ensures its healthy functioning and achievement of strategic objectives;
- proposes for approval to the Management Board and Supervisory Board the general framework regarding crisis simulations;
- proposes for approval to the Management Board and Supervisory Board, the Bank's outsourcing policy and the procedures for the management of the risks associated to outsourcing;
- analyzes the reports regarding the functioning of the Bank's internal control system and disposes measures for the resolving of identified deficiencies, informing the Management Board and Supervisory Board (by means of the Management Board);
- approves limits for counterparties, except limits for leasing companies which are approved by Credit Committee and investment limit for mutual funds which is approved by ALCO;
- establishes appropriate limits for exposure to risks, including for crisis conditions, in compliance with the size, complexity and financial situation of the Bank, as well as the procedures needed for the approval of exceptions from the respective limits;

- debates the reports regarding suspicious operations and fraud incidents which are sent to the NBR, in the situation when, due to their significance level, they could affect the safety, solidity and bank's reputation;
- debates quarterly reports regarding the status of implementing the decisions taken within monthly Committee meetings presented by the Committee's secretariat;

Total number of Risk Management Committee meetings which were held during 2017 was of 37 (12 ordinary meetings and 25 meetings held by correspondence).

During 2017, Risk Management Committee structure had a stable character and no modifications were registered with regard to its structure.

- **Responsibilities of the Asset-Liability Committee**

The Assets and Liabilities Committee makes decisions related to the management of the assets and liabilities of the Bank. Duties include continuous monitoring of financial and capital market trends, as well as important changes in the structure of assets and liabilities and, based on this analysis, taking appropriate measures.

The main responsibilities of this Committee are:

- submits for approval to the Management Board and the Supervisory Board The liquidity Management Strategy;
- Submits for approval to the Management Board internal regulations concerning:
    - Stress testing in the OTP Bank Romania SA;
    - Liquidity risk management;
    - Management of the interest rate risk outside the trading book
- approves the system limits on the maximum exposure to liquidity risk. It also analysis the liquidity gap report and liquidity limits breaches, approves the measures and actions to be implemented;
- approves the limits system and the maximum level of exposure to interest rate risk;
- approves proposals for medium and long term investment and funding proposals;
- approves the maximum permissible exposure level and trading strategy for Treasury's Directorate trading book;
- establishes limits concerning securities and derivative transactions related to bank customers;
- approves alternative financing plans to establish formal strategy to address liquidity shortfalls recorded in crisis situations, for both bank specific scenarios and market scenarios;
- approves the methodology for calculating the potential changes in the economic value of the Bank as a result of applying a / some sudden and unexpected changes in interest rates;
- approves minimum margin for loan products;
- monitors, controls and manages the bank's liquidity using the monthly liquidity report;
- monitors, controls and manages interest rate risk outside the trading book using the monthly interest rate risk report;
- monitors Treasury's profitability based the monthly Treasury Profitability report;
- considers proposals of Assets and Liabilities Management Department and Risk Administration Directorate on hedging solutions (interest rates, liquidity, foreign exchange) and decides how to act;

- approves transfer pricing methodology;
- approves, if necessary preventive or remedial measures, according to results of macroeconomic stress testing;
- submits to the Management Board and to the Supervisory Board (by means of the Management Board) briefings on liquidity;
- decides the composition of the non-trading portfolio, hedging policy and tactics;
- approves Treasury instruments portfolio, product development strategy, as well as the plans for the securities by currency, maturity and product groups ;
- analyzes and acknowledges the sales situation, balances of loans and deposits, cost of funds based on Business Evolution report prepared monthly / bimonthly;
- ongoing monitors financial and capital market trends and significant changes in the structure of assets and liabilities and then, based on this analysis, take appropriate measures;
- approves the size and currency of standby credit lines;
- decides on the opportunity of reviewing trading limits in situations when the annual stop-loss limit is breached;
- any other duties stipulated by law, as determined by the internal regulations of the Bank or, as the case may be, delegated by the Board.

➢ Responsibilities of the Product Development, Sales and and Pricing Committee

The main responsibilities of the Product Development, Sales and Pricing Committee:

- appraises and approves the banking products and services development;
- analyses and approves the proposals regarding the development of banking products and services, launching/ modifying/suspension/cancelling of all existing and new banking products and services, together with all the related internal regulations (eg. Products descriptions, work flow);
- analyses and approves the internal regulations (product descriptions, working procedures, workflows) regarding lending (or lending related) existing or future products/services (including modification, cancelling, suspension, withdrawal, etc.) and also pricing related decisions;
- supervises the implementation process of the new banking products and services in accordance with the approved implementation plans and approves any amendments thereto;
- approves the commercial conditions of the banking products and services, including "Private Banking" products and services, such as fees, commissions, interest, margins, etc., under the minimum price conditions approved by the ALCO for credit products.
- approves the standard and negotiated competence levels for approval regarding the price of goods and services addressed to customers and partners;
- elaborates monthly reports to Management Board if necessary, as required in the Management Board decisions; On this occasion, the members of the Management Board may decide that a proposal already approved in the Committee but not yet implemented, be postponed to the date of launch so that it can be validated and approved by the members of the Management Board;
- establishes the distribution channels for banking products and services;
- analyzes the performance of the banking products and services, their profitability (also considering the risk cost elements) and life cycles, and sets out the measures to optimize the banking products and services;
- decides on the campaigns' prioritization for banking products and services and the calendar of the respective campaigns and performs follow-up of the campaigns;

- analyzing and being informed about the evolution of sales, loans and deposits outstanding, costs of fund based on the "Business evolution" report developed and presented at least monthly by the Strategy, Management and Asset and Liability Management Department;
- sany other attributions clearly referred by the law, established by the Bank's internal regulations or, where necessary, delegated by the Management Board.

Common Responsibilities of the Credit Committee and Sub-credit Committees

The main responsibilities are the following:

- to approve the credit reports and undertaking of commitments, according to competence limits as established by IOR and with the legislation in force;
- in approving loans, the CC, SCC2 and SCC1 shall take into consideration at least;
  - the current and forecasted financial performance of the counter-parties;
  - the concentration of exposures to counterparties, the markets in which they operate, the economic sectors and countries where they are set up;
  - the capacity to implement, from the legal point of view, the contractual commitments;
  - the capacity and possibility to enforce the collateral under market conditions;
  - contractual commitments towards persons which are in special relations with the Bank, the Bank's employees or their family;
  - large exposures;
  - operations under favorable conditions;
- seeks that large exposures, loans involving a high credit risk or those not included in the Bank's lending policy are approved at the level of the Management Board;
- when approving credits, the Credit Committee(CC) and Sub-credit committees (SCC1 and SCC2) must take into consideration the integrity and reputation of its clients as well as their legal capacity to assume obligations;
- sees that the Bank uses adequate work procedures;
- sees that the Bank uses procedures to assess real collaterals on a permanent basis;
- as regards the personal guarantees, the CC, SCC1 and SCC2 shall evaluate the capacity of the guarantors to assume obligations;
- CC, SCC1 and SCC2 see that responsibilities within the lending activity are adequately distributed, in order for the personnel not to be assigned with responsibilities that might generate interest conflicts;
- approves other requests of conditions change, afferent tot the approved facilities at least at the competency level of the CC, SCC1 and SCC2;

The responsibilities of the CC, SCC2 and SCC1 may be complemented by direct stipulations of the internal regulations with regard to lending activity, as well as delegated by the Management Board/ Supervisory Board.

Responsibilities of the IT Development Committee

The main responsibilities of the IT Development Committee are the following:

- analyze the opportunity of the software and IT&C development requests and estimation of the involved resources;
- decide prioritization of software and IT&C development requests;
- approve the Priority Lists of the software and IT&C developments, based on proposals submitted by Bank's units;
- approves the proposals to be included to or removed from the priority lists;
- decides of technical solutions of products, procedures and projects;
- follow-up the status of developments;
- report to the Management Board the Priority Lists of the software and IT&C developments;

- monitoring the resources allocated to projects and Service Request;
- inform the Management Board regarding the change of priority for SRs generated by Projects;
- approve the Data Ownership Scheme, according to the Policy on data ownership;
- approve SRs prioritization criteria and methodology;
- approve cost – benefit methodology applicable;
- any other attributions established by the Bank's internal regulations or, where necessary, delegated by the Management Board.

➢ Responsibilities of the Ethics Committee

The main responsibilities of the Ethics Committee are:

- present positions/ interpretation and recommendations in general and individual cases when applying the Code of Ethics;
- present positions and recommendations in general and individual cases on violations of the Code of Ethics that are submitted to Committee;
- prepares proposals to further develop the Code of Ethics on the basis of experience resulting of its practical work;
- any other responsibilities stipulated by the law, by the Bank's internal regulations or, as the case may be, delegated by the Management Board.

It is the task of the Ethics Committee to analyse and issue decisions related to founded reports according to the provisions of internal provisions for reporting unethical conduct.

➢ Responsibilities of the Loan Recovery Committee (LRC)

The Workout Committee (WOC) has the authority to make decisions in matters of its competency, according to Internal Organisation Regulation and legal environment, and to present proposals and suggestions to the Bank's Management Board, concerning the development of policies and procedures adquate to the recovery activity, which shall ensure:

- the indentification and management of non-performing loans, with values according to Matrix M4 of IOR;
- monitoring and control of restructuring and recovery activities realted to overdue loans;
- the proper evaluation of activity regarding the restructuring and ckaim recovery;

Workout Committee meetings take place, as a general rule, weekly, according to WOC Regulations, or by email (bay corespondence), each time it is required.

The main responsibilities of the Restructuring and Workout Committee:

- approves the proposals for starting the Workout procedures for the clients, according to the competence limitations established within IOR and observing the relevant laws;
- upon the approval of the non-performing reports, **Workout Committee** takes into account at least the following:
    - unfavourable changes both in the financial performance and the status of the guarantees established by the borrowers;
    - the continuous deterioration of the business sector of the client;
    - registration of credits, interests or past due commissions;
    - the start by other creditors of the procedures for the recovery of their receivables, including but not being limited to the insolvency procedure, the application of garnishments on the amounts in the accounts of the borrower opened with OTP

BANK ROMANIA S.A. and/or other banks, personal and real property forced executions;
    - protest movements of the employees of the borrower, mass resignation;
    - the lack of a professional management;
    - the initiation by other creditors of certain forced execution procedure on personal and real assets which represent guarantees for the credits granted by OTP BANK ROMANIA S.A.
- monitors the fulfilment by the Restructuring and Workout Directorate of the approved/disposed measures regarding the recovery of the amounts from the clients, according to the competence limitations established within IOR and observing the relevant laws;
- upon the approval of the reports, **Workout Committee** should take into account the history of the relation of the bank with the client as well as the monitoring reports;
- makes sure that the Bank uses the adequate procedures for the continuous assessment of the status of the clients which have delays regarding their reimbursement of the credits or whose financial status has obviously worsened in comparison to the moment of granting the credit/the credits; concerning the real guarantees and the personal guarantees established by the clients who have not yet paid their debts, **Workout Committee** monitors and takes measures (including granting new loans to clients in Restructuring and Workout Directorate portfolio, rescheduling and restructuring of loans as well as other measures stipulated in the internal regulations of the Bank) in order to use the legal notice and the opinion of the Restructuring and Workout Directorate in a fast manner beneficial for the bank, on the basis of the bad loan report;
- approves other requests for amending the initial decisions regarding the switch to forced execution/bankruptcy, if the client's status improves significantly and (or) there are real opportunities of totally reimbursing the past due receivables;
- approves the reports of the Restructuring and Work-out Directorate regarding the necessity of considering certain amount as losses based on the impossibility of selling certain receivables, certain guarantees and consequently, the impossibility of completing all the legal recovery procedures, without the total/partial recovery of the receivables;
- approves the return of the client back to the Bank's business area, upon the proposal of the Credit Recovery Directorate, with the approval of the Credit Committee;
- approves the registration of the claims in the off balance sheets of the Bank, for all exposures that meet the criteria mentioned in the Write-off Procedure;
- performs any other tasks according to the relevant laws, established by the IOR or delegated by the Management Board.

During 2017, the Workout Committee has met 64 times (both via email/correspondence and meetings)

➢ Responsibilities of the Loans Monitoring Committee

- The responsibilities of the Committee are:
- Reviews and evaluates on monthly basis, in detail, the problematic and expecting to be problematic in the future clients/client groups (regardless the exposure);
- After this review, the committee shall discuss the further steps to do concerning problem management. The Committee has the authority to decide the following:
    - To keep the receivable in ordinary procedure in the portfolio of the given business unit;
    - Prescribing further, stricter monitoring tasks;
    - Drawing up an action plan / approving or rejecting the action plan; in the process of evaluating the action plan, the Committee may adopt the following decisions based on the current status of the transaction:
        - The Committee adopts the contents of the Action Plan;
        - The Committee decides additional tasks to those in the Action Plan (eg improving coverage with guarantees, stricter monitoring tasks, etc.)

- The Committee does not accept the action plan and asks for the preparation of a new action plan based on the instructions received.

  - Transferring the client in the management of the Restructuring& Work-Out Directorate and drfting a loan transfer report;
  - Asking for review of the client/transaction in the following Committee, etc.
  - Decides upon the risk status of the clients (normal/Watch List/work-out) and on the Watch List cathegories, based on the Early Worning Signals determined and presented;
  - Can decide the delisting of the Watch List clients;
  - Makes proposals for IFRS provisions to be set and approves the final provision amounts for the normal managed legal entities clients that are individually provisioned;
  - The Monitoring Committee, on the basis of individual analysis, may decide that a client (with a exposure equal to or greater than EUR 200,000 equiv., together with all clients in the group of clients in contact with them) is not considered implicitly default / in default, despite the significant provision / signal. The reason for such a decision will be recorded in the minute.
  - Follow up previous decisions and strategies;
- Any other responsibilities required by national laws, set up by the internal rules in force, or delegated by the Management Board.
  Problematic clients/client groups means:
    - the client was discussed in the previous Monitoring Committee meeting, and further tasks were prescribed concerning it;
    - there is delay in fulfillment the payment obligation concerning the deals of the client of more than 15 days;
    - there are legal actions in process concerning the client which can disturb the normal course of business of the client and the client/transaction is not in the management of the Restructuring& Work-out Directorate;
    - clients classified as watch list/work-out according to the Early Worning System, for which is requested the Committee's decision regarding the final risk status;
    - the restructured clients, depending on the decision of the first Committee after the restructuring;
    - etc.

  In special cases other non-problematic clients could be also brought to Monitoring committee meetings, at its special request (for example all clients who operate in a problematic industrial sector).
  Thus, clients without EWS signals, with client/client group exposures greater than 4 million EUR should be reviewed in the Monitoring Committee meetings following the next alghorithm:
  - Clients with internal rating 1 and 2 and client / customer exposure in excess of EUR 6 million will be reviewed on a half-yearly basis;
  - Clients with an internal rating of 3 and 4 and a customer / group of customers in excess of EUR 5 million will be seen once every 4 months;
  - Clients with an internal rating of 5 and 6 and a customer / group of customers in excess of EUR 4 million will be reviewed quarterly.
- Any other duties set forth by the internal regulations in force.

➢ Responsibilities of the Business Development Committee

The main responsibilities of the Business Development Committee are:

- develop and assume the annual business strategy;
- prior approval, according to the internal regulations, of the Strategic projects & actions plan as well as of the afferent budgets, based on which the priorities will be set as well as any other needed developments;
- monthly monitoring of the Action Plan and Strategic Projects;
- prior approval to the MB regarding the reallocation of budget twoards other strategic initiatives than the one initialy budgeted;

- monthly reporting to the Directorate of the status of the Action Plan and Strategic Projects;
- quarterly proposes to the MB the approval of the committee's working calendar, before the start of the following quarter, calendar that will include as well the subjects to be discussed in the next quarter;
- proposes for Management Board's approval the prioritization and resources allocations, OPEX and CAPEX as well for the business developments and back-office developments corelated with the IT development needs, taking into account the cost-benefits analisys prepared, corelated with non-IT projects (as Mentor/Financial Wellbeing, Financial Education etc.), focus and functionalities;
- submits for Management Board' yearly until the end of September the development proposals for the following year as well as the incomes estimated for the following 3 years;
- monitor the profitability of the business lines, ordering measures to improve performance and, if necessary, proposals to the Management Board;
- analyze reports of sales activity divided into territorial units, regions, products, business lines, and consequently finding solutions/actions for improvment / fix performance in order to improve / maximize results;
- continuous monitoring of cross selling and identification of the improvement solutions, based on reports / proposals submitted by the business lines, including cross selling with other OTP group companies. Identify new opportunities in the market, based on market analysis and reports on competition, customer needs and the feedback from the distribution network, and consequently decides the solutions in order to give a competitive position in the market, of the bank;
- annualy analyses and propose modifications to the general framework of the performance management system and START for sales force, in order to be harmonized with profit target of the bank;
- coordinates the marketing plan and update it, correlated with the bank strategy, monitor the effectiveness of various campaigns, from business strategy perspective;
- analyses the monthly proposals for improving the bank's processes made by the committee's members, as well as other business development proposals made by them;
- any other attributions clearly referred by the law, established by the Bank's internal regulations or, where necessary, delegated by the Management Board.

1.5. Organization of internal control system functions

The internal control framework aims the institution as a whole, including the activities of all operational units, support and control functions, and is constituted of appropriate internal regulations, mechanisms and plans that help identify the internal and external risks to which the bank is exposed.

For a prudent management of these risks, the head office unit responsible for an activity area of the bank, develops and implements internal regulations corresponding to the administrated activity with the formalization of all the processes and control activities to be carried out in that area of activity.

Organizational units and support functions have the primary responsibility for establishing and maintaining adequate internal control procedures.

A comprehensive framework for internal control also requires the verification by independent control functions of being compliant with these policies and procedures.

At OTP Bank Romania level, the internal control framework is organized on three levels: according to the pyramid of the internal control system, as follows:

❖ ***The first level*** or first line of defense is intended to ensure that transactions / operations / activities are carried out correctly and is represented by all the organizational units, starting with front office staff. The controls and the responsible for their performance are defined in specific regulations and the controls are based on the principle of the 4 eyes. Carrying out the activity accordingly is a first step in carrying out the control activity at this level.

❖ ***Second level*** or risk control and management - is the responsibility of two of the independent control functions:
-Risk Management function (provided through the following organizational units: Risk Administration Directorate, Strategy, Controlling and Asset and Liability Management Directorate)
-Compliance function (provided through the Compliance and Security Directorate).

❖ ***The third level*** of control is provided by the Internal Audit Function, which regularly verifies the completeness, functionality and adequacy of the internal control framework. Internal audit is independent of the other two levels of internal control already mentioned.

The three independent control functions mentioned above operate independently from the operational and support function they monitor and control and are organizationally independent from each other.

An extract of the Organizational chart of OTP BANK ROMANIA S.A. on divisions at 31.12.2017 is presented in Annex 1, with the indication that the directions belonging to the independent functions of the internal control system are highlighted in red.

Independent control functions

The risk management function is centrally organized, including a group risk management function within the parent credit institution of the group: OTP Bank Nyrt. The Bank has a robust culture of risk management, extended to its structures as well as to its line of business.

Responsibility for risk management lies with the staff of all lines of activity not being limited to risk specialists or control functions.

The risk management function ensures that all significant risks are properly identified, measured and reported, and actively involved in the risk management strategy of the bank in all significant risk management decisions.

The overall risk management framework encompasses the entire process of policy procedures and systems that enable the bank to manage prudently the potential risks that can be generated by the business carried out, thus ensuring that they fit into the risk appetite of the bank.

Each line of activity provides for the management of risks through various lever / tools, among which we mention: the supervision / control provided by the bank's management structure, the steering committees of the Bank, the separation of responsibilities, the principle of the four eyes, policies and procedures dedicated to each area of activity. Controls are preventive, detective and corrective being aligned with the risks and associated lines / processes.

The person who coordinates the Credit and Risk Management Division is the coordinator of the risk management function within the Bank.

The compliance function advises the management body on the provisions of the legal and regulatory framework and on the standards that the bank must meet and assesses the possible impact of any changes in the legal and regulatory framework on the credit institution's activities.

The compliance function is provided by the Compliance and Security Directorate, which is responsible for managing the compliance risk within the Bank.
In order to ensure rigorous compliance risk management within the bank, the Compliance and Security Directorate has developed OTP Bank's Security and Compliance Policy, approved by the Supervisory Board, which is implemented at the level of the entire bank and communicated to all staff.

The compliance function has a role in identifying, assessing, monitoring and reporting compliance risk to the management body.
The findings of the compliance function must be considered by the governing body in the decision-making process.

The compliance function also has the role of checking whether the new products and new procedures are in line with the regulatory framework in force and any amendments thereto included in the adopted normative acts whose provisions will become applicable subsequently.

The Director of the Compliance and Security Directorate is the coordinator of the compliance function at the Bank and OTP Bank Romania SA and reports directly to the Supervisory Board.

The Internal Audit function assesses whether the quality of the internal control framework is both effective and efficient.

The Internal Audit function assesses the compliance of all the Bank's operations and operational units (including risk management function and compliance function) with the credit institution's policies and procedures. In this sense, the internal audit function is independent of the other two control functions mentioned above.

The internal audit function also assesses whether existing policies and procedures remain appropriate and comply with legal and regulatory requirements.

The internal audit function reports directly to the management body and the Audit Committee its findings and suggestions on the significant improvement of internal controls.

Control functions are set to an appropriate hierarchical level and direct reporting lines to the management body are defined. The control functions at the group level supervise control functions at branch / subsidiary level.

Internal control functions periodically transmit to the governing body official reports on the major deficiencies identified. The type and frequency of these reports is defined in specific regulations. These reports include tracking measures for previous findings and, for any new major identified deficiency, the relevant risks involved, an impact assessment and recommendations. The management body must act on the findings of the control functions in a timely and effective manner and should seek appropriate remedial action.

2. RECRUITMENT AND REMUNERATION PRACTICES

During the reported period, OTP BANK ROMANIA S.A. has reached over 1.268 employees, and 5 (five) persons the Bank concluded a management contract with, the approaching strategy being focused on stability and balance. The Bank applies flexible solutions for stability and safety, the maximum focus concentrating on the most important resource, namely the human resource.

The Bank sustains participation to various motivational programs, and also participation to seminars on various interest topics with the purpose of sediment the knowledge in certain specialized areas well known within the Banking system. Beside the training sessions and testing coming from the strategy of the current year, the Bank has in its integration program also the training and on-line testing annual plan on Banking security and compliance areas, both for the new and existing employees, with the scope of training them and to prevent the occurrence of specific risks.

Another objective for the Bank is to provide to the employees a more stable and enjoyable working environment. Therefore, within OTP BANK ROMANIA S.A. a Collective Labor Contract is in place. Furthermore, in order to create a transparent environment, within the Bank were approved clear and brief defined methodologies, responsibilities, fulfillment stages, information flow and documents required in the human resources processes. Also, the human resources policies, norms and procedures are updated in line with the approached strategy, and we mention:, Professional Inadequacy Procedure, Remuneration Policy of OTP Bank Romania S.A., Training Norm and Policy, Policy on recruitment and selection, Procedure for integration of the new employees.

- **Recruitment policy OTP BANK ROMANIA SA**

The recruitment policy of OTP Bank Romania S.A. is based on the principle of ensuring equal employment opportunities to all applicants in order to select the most suitable candidate within the requirements of the vacancy, considering:

- technical knowledge,
- human specifics skills,
- previous professional experience,
- requirements related to banks, operational, reputational, professional risk and related partners / customers,
- allocated budget for the position,

regardless of race, nationality, ethnicity, religion, social category, beliefs, sex or sexual orientation, age or affiliation to a disadvantaged groups.

- OTP Bank Romania S.A aims to recruit, select and retain professionals who represent the best choice from the point of view of the foregoing requirements.

The second principle within Recruitment and Selection Policy is to facilitate the selection and promotion of internal candidates whenever possible.

➢ Selection and Suitability Assessment for key function holders

When identifying Key function holders, the following main criteria are considered:

1. He/she is not a member of the Supervisory Board or of the Management Board
and
2. He/ she is head of a Directorate/ Department directly subordinated to one of the Management Board members within the following areas:

- Business line (treasury, corporate lending, retail lending etc.);
- Credit risk management functions (workout, restructuring, loan approval)
- Internal control function (risk management/ compliance/ internal audit)
- key support function e.g. Finance, IT, Legal, Operations, Human Resources;

In addition to the general principles with regards to the selection of staff members, the following additional aspects are considered for Key function holders:

- In the interest of the safe operation OTP Bank Romania S.A. it is essential that it be governed by professionally suitable and, in business terms, reliable persons of good business repute.
- Key function holders must at all times be suitable for the role undertaken.
- Prior to the appointment of the Key function holder, and subsequently on a yearly basis or whenever the necessity arises, the suitability of the Key function holder must be assessed.

- A person can be appointed as a Key function holder only if he/ she meets the specific requirements identified by the Bank.
- Selection and Suitability Assessment for Key function holders are performed in accordance with the applicable regulations issued by the National Bank of Romania, the European legal framework and are aligned with the OTP Group policies as long as such provisions do not conflict with the Romanian legislation.
- In order to ensure the standardization, harmonization and consistency of the corporate governance systems, the compliance requirements are consistent with applicable principles at OTP Group level.

Criteria for the assessment of the suitability of Key function holders

In the assessment of the suitability of Key function holders the following minimum criteria must be considered:

Reputation and integrity

When assessing the reputation, the following aspects are considered:

- The existence of convictions or ongoing prosecutions for criminal offences;
- The existence of other relevant current or past measures taken by any regulatory or professional body for non-compliance with any relevant provisions governing banking, financial, securities or insurance activities.
- Evidence of misconduct or dishonesty (e.g. background check, past employers, media).

The existence of conflicts of interest should also be considered before the person is appointed for the specific role.

Knowledge

All Key function holders should have finalised higher education. Moreover, the Key function holder (or a candidate) should have:

- A sound knowledge with regards to the regulatory framework applicable to credit institutions as well as the rules of prudent banking practices.
- Good understanding of the activities of the credit institution, including major risks, especially by reference to the area of his/her role.

Competences for Key function holders

During the selection process for Key function holders, the following competencies will be taken into consideration:

a) Integrity: communicates and acts authentically, generating trust; promotes values based on integrity and personal responsibility.
b) Innovation: acts for the development of personal skills and creates a stimulating environment for learning and knowledge upgrade; encourages the development of new ideas and actively gets involved in putting them into practice.
c) Results Orientation: sets ambitious objectives by putting the client in the centre of his actions and then mobilizes himself in order to achieve them; takes documented decisions, taking into account their long-term impact.
d) Collaboration: offers his support unconditionally; acts in order to obtain consensus within the team; openly communicates, actively listens and integrates feedback and other people's opinions in his actions.
e) Team Management: acts in order to maximize the team members results; organizes and motivates team members.
f) Leadership: builds the company's vision and strategy and puts it into practice; mobilizes and inspires through personal example; contributes to the organization's talent development and to the alignment of personal aspirations with the company's mission;
g) Vision, thinking and strategic planning.
h) Knowledge and excellent negotiation and management capabilities.
i) Excellent organizational and planning skills.
j) Control and monitoring of the decision-making process.

k) English - advanced level.

➢ Recruitment, selection and assessment for management body members

Within OTP Bank Romania SA the management body members are:

a) ***Executive management of the bank - Members of the Management Board***

Represent the members of the Management Board of OTP Bank Romania SA. who, according to the Constitutive Deed and / or decisions of decisional bodies of the Bank are empowered to lead and coordinate its daily activities and are invested with the power to bind the Bank.

When performing the suitability assessments for Management Board members both the suitability of the composition of the body and the suitability of each individual member are assessed.

At aggregate level the following aspects must be considered:

- **Size:** the Management Board has the required number of members to effectively perform its duties;
- **Expertize and experience:** reflects overall an adequately broad of experiences; collectively have knowledge, skills and expertise to allow them to understand the business activity of the Bank, including their risks and to pronounce, in full awareness about all the aspects they have to decide upon, according to their competencies; and sufficient practical experience in credit institutions; and
- **Diversity:** an adequate diversity level considering criteria such as gender, age, cultural and educational background or professional experience; The Bank's target for the underrepresented gender is to maintain a minimum of 20% representation.

At individual level the Management Board members must fulfil the general conditions provided by OTP Bank Plc policies and by the laws in force, as well as the special conditions relating to such position, stipulated in the Company Law, Banking Law and in the regulations issued by NBR as well as in other European pieces of legislation, as applicable from time to time which include:

- **Reputation:** should be no evidence to suggest otherwise and no reason to have reasonable doubt about the member's good reputation;
- **Experience & expertise:** should have sufficient experience and expertise to perform his/her roles and responsibilities, considering the theoretical experience attained through education, training and the practical experience gained in previous occupations;
- **Time commitment:** should be able to allocate the minimum expected time commitment required for the individual responsibilities, as well as for the specific responsibilities as part of the Management Board; and
- **Objectivity:** should be able to act objectively, critically and independently. In this regards, any conflicts of interest need to be identified and adequately managed.

During his/ her mandate, each member of the Management Board shall at all times comply with the fit and proper requirements and shall promptly notify the Supervisory Board of any event or circumstance which may have as consequence that he/she is no longer deemed fit and proper.

Management of the process of selection and recruitment of the members of the Management Board respects the Romanian Legislation and the requirements of the NBR.

b) Non-executive management of the bank - Members of the Supervisory Board

When performing the suitability assessments for Supervisory Board members both the suitability of the composition of the body and the suitability of each individual member are assessed.

At aggregate level, the following aspects must be considered:

- **Size:** the Supervisory Board has the required number of members to effectively perform its duties;

- **Expertize and experience:** collectively the required knowledge, skills and experience in order to be able to understand the activities of the Bank, including the main risks thereof, and decide in full knowledge of the aspects falling under its competences;
- **Diversity:** an adequate diversity level considering criteria such as gender, age, cultural and educational background or professional experience; The Bank's target for the underrepresented gender is to maintain a minimum of 33% representation.
- **Independence:** a sufficient number of independent members on the Supervisory Board where independence is assessed by reference to the applicable regulatory framework.

At individual level the Supervisory Board members must fulfil the general conditions provided by OTP Bank Plc policies and the laws in force, as well as the special conditions relating to such position, stipulated in the Company Law, Banking Law and in the regulations issued by NBR as well as in other European pieces of legislation, as applicable from time to time which include:

- **Reputation:** should be no evidence to suggest otherwise and no reason to have reasonable doubt about the member's good reputation;
- **Experience & expertise:** should have sufficient experience and expertise to perform his/her roles and responsibilities, considering the theoretical experience attained through education, training and the practical experience gained in previous occupations; When assessing experience and expertise the Bank shall consider also if the respective person will be a member of the specialised committees of the Bank (e.g. Audit Committee);
- **Time commitment:** should be able to allocate the minimum expected time commitment of effective participation and adequately exercise of prerogatives as a member of the Supervisory Board; and
- **Objectivity:** should be able to act objectively, critically and independently. In this regards, any conflicts of interest need to be identified and adequately managed.

When assessing the experience & expertise, either at individual or collective level, the following areas should be considered:

- financial markets;
- regulatory framework and requirements;
- strategic planning and understanding of a credit institution's business strategy or business plan and accomplishment thereof;
- risk management (identifying, assessing, monitoring, controlling and mitigating the main types of risk of a credit institution, including the responsibilities of the member);
- assessing the effectiveness of a credit institution's arrangements, creating effective governance, oversight and controls; and
- interpreting a credit institution's financial information, identifying key issues based on this information and appropriate controls and measures.

The selection of the members of Supervisory Board takes into account the provisions of the Romanian legislation in force and the requirements and norms of the NBR.

In the context of the nomination of the members of the governing bodies, it will be ensured that only those with extensive professional expertise can occupy positions within them. Members of the management bodies shall comply with the legal authorization conditions at all times, including the requirements of professional suitability, financial reliability and good business reputation.

The persons appointed or elected for management body position can exercise the responsibilities associated to this position (including the voting within the permanent committees of the bank) only after obtaining the prior approval of National Bank of Romania.

Selection of the management members of the Bank must ensure that there is sufficient expertise and independence within them, and that the board members have the ability to devote sufficient time and effort in effectively fulfilling their duties.

Performance measurement rules for management members are described in “The Rules of Performance Measurement and evaluation system at Group level and their application in OTP Bank Romania”. This regulation is in line withthe legislative provisions, namely: European Parliament and Council Directive No. 2013/36 / EU (CRD IV), Regulation of the European Parliament and of the Council No. 575/2013 (CRR), the CEBS Guidelines on Remuneration Policies and Practices (12 December 2010), the B.N.R. 5/2013 on the management framework for the activity of credit institutions, with subsequent amendments and completions.

The Performance Measurement Rules set out the principles, methods and performance measurement tools applied to the management of OTP Bank Romania S.A., included in the incentive system based on performance evaluation. The purpose of this regulation is to define the objectives and assess the performance.

Performance value is the product of the results of strategic and individual goals, meaning that individual performance is weighted by strategic indicators. Performance compensation is set in accordance with Remuneration policy OTP Bank Romania S.A. ‚the Rules pertaining to the Remuneration Policy of OTP Bank Nyrt. and Bank Group and their application to OTP Bank Romania”.

The principles related to remuneration recognizes the efforts of OTP Bank executives to achieve bank and group results and to support them with incentives, while also ensuring effective and successful risk management, strategy, goals, OTP Bank's long-term values and interests and their facilitation.

➢ Remuneration in case of Bank’ s employees

The remuneration policy is applicable to all staff members unless the application is limited to certain categories of staff and is subject to approval by the Supervisory Board.

Remuneration comprises a fixed and a performance-based remuneration element. The Bank can grant the following types of remuneration:

1. Monetary remuneration:
    a. Basic salary
    b. Bonuses or premiums
2. Non-monetary benefits such as meal tickets, medical services etc.

The Bank classifies remuneration granted to its staff as fixed if its award and its amount:

- are based on predetermined criteria;
- are non-discretionary reflecting the level of professional experience and seniority of staff;
- are transparent with respect to the individual amount awarded to the individual staff member;
- are permanent, i.e. maintained over a period tied to the specific role and organizational responsibilities;
- are non-revocable;
- cannot be reduced, suspended or cancelled by the Bank;
- do not provide incentives for risk assumption or depend on performance.

All other types of remuneration which do not meet the criteria above are to be considered variable remuneration and will be subject to the applicable limitations.

Fixed remuneration

○ Basic Salary

When setting the salary level the following aspects are considered:

- **Internal equity** i.e. when setting the salary scale/ level the level of education, expertise and skills, complexity and organizational responsibility the position entails are considered;
- **External equity** i.e. when setting the salary scale/ level the Bank considers information gathered from salary polls and market data on financial institutions to ensure adequate

resources are attracted and maintained. As such the Bank benchmarks itself to its relevant market.

Basic salary is negotiated in gross and in RON.

- **Other types of fixed remuneration**

The Bank may grant the following additional types of fixed remuneration:

- **Payment for relocation purposes** – applicable for employees relocated on a position outside their residing locality/ changing residence for employment purposes at the specific request of the Employer, for a period of a minimum 3 months. The maximum amount in this case is RON 11,000 gross value per relocation.
- **Monthly housing allowance** – applicable for employees relocated on a position outside their residing locality/ changing residence for employment purposes. The amount to be granted is decided on a case by case basis and is subject to the approval of the Chief Executive Officer/ Deputy General Manager.

The Bank can grant additional fixed remuneration for expatriate staff members.

- **Benefits**

The Bank sets through its Collective Employment Agreement benefits applicable to all its employees. Benefits applicable to employees are subject for approval of the Management Board or Supervisory Board, considering their approval limits from Internal Organizational Rules competencies matrix.

Variable remuneration

- **Bonuses**

The Bank may grant variable remuneration related to:

a) **Overall performance** – based on the assessment of the individual, unit and Bank performance;
b) **Incentive schemes –** based on specific Bank, business line and individual objectives and can be set for periods up to one year or more (Incentive systems: e.g. START Retail, START Corporate, Work Out, Soft Collection, Treasury).
c) **Special projects** – bonuses granted in exceptional cases, such as participation in a specific project.

- **Exceptional payments**

Upon the termination of the employment relationship, the Bank may provide the following:

a) basic salary until the termination of the employment relationship;
b) severance pay;
c) absence fee for the dismissal period;
d) compensation for the non-competition agreement provided that there is a contract to this effect, and the beneficiary makes a declaration based on which the non-competition obligation remains effective in the period following the termination of the employment relationship;
e) benefits provided by the collective agreements and internal regulations;
f) benefits payable on the basis of individual agreements stipulated in a contract;
g) settlement of the performance-based remuneration upon the termination of the employment relationship with the observance of the applicable requirements for variable remuneration.

Payments related to the early termination of a contract will reflect performance achieved over time and are will not reward failure.

- **Pension benefits**

The Bank does not award discretionary pension benefits.

Rules applicable to all staff

1. **The remuneration framework ensures alignment of the objectives of its staff with the long term objectives of the Bank and avoids conflicts of interest.**
   The Bank develops, maintains and implements a remuneration policy which:

- is consistent with and promotes sound and effective risk management and does not encourage risk-taking that exceeds the level of tolerated risk of the Bank.
- is in line with the business strategy, objectives, values and long-term interests of the Bank and its shareholders; and
- incorporates measures to avoid conflicts of interest (including with regards to mis-selling).

The payment of the performance-based remuneration, in accordance with the provisions stipulated herein, conforms to the business cycle of the Bank and of OTP Bank Group.

Conflicts of interests with regard to the remuneration policy and remuneration awarded must be identified and appropriately mitigated, including by:

- Identifying and assessing such circumstances;
- Establishing objective award criteria based on the internal reporting system/ data;
- Applying appropriate controls, including the four eyes principle within the performance measurement and award processes.

The Bank will not pay variable remuneration through vehicles or methods, which may aim at or effectively lead to regulatory non-compliance or decrease in the effectiveness of the remuneration framework in supporting a sound performance of the Bank.

2. Remuneration is aligned with performance

Remuneration is based on individual performance, business unit performance and the overall performance of the Bank.

Individual performance is assessed considering both financial and non-financial criteria (such as skills, leadership abilities, compliance with Bank's internal rules etc.).

3. Variable remuneration is flexible

Fixed and variable components of total remuneration are properly balanced. The fixed component will represent a sufficiently high proportion of total remuneration ensuring the operation of a fully flexible variable remuneration policy, including the possibility to pay no variable remuneration.

Up to 100% of any variable remuneration granted by the Bank shall be subject to malus and claw-back arrangements.

Guaranteed variable remuneration can be granted only in exceptional cases upon hiring new staff for a period not exceeding 1 year provided the Bank has a sound capital base.

4. Personal hedging is forbidden

Staff members are forbidden to transfer the downside risks of variable remuneration to another party through hedging, insurance or any other type of mitigation technique which compensates them in the event of a downward adjustment in remuneration.

If a staff violates the prohibition stipulated in the previous paragraph, the Bank may:

a) claim damages and apply malus and clawback, or
b) demand instead of damages that the staff concerned assigns the transaction concluded for his/her own benefit, or
c) may demand to surrender his/her profit arising from the transaction concluded on a third party's account or to assign his/her related receivable to the Bank.

Regarding the ratio between the fixed and the variable component of the total remuneration, OTP Bank Romania SA applies the principle that the variable component must not exceed 100% of the fixed component of the total remuneration for each employee.

The evaluation of the individual professional performances consists in the objective assessment of the activity of each employee, by comparing the degree of accomplishment of the individual objectives, established annually, with the results actually achieved.

The set objectives will have Performance Indicators (KPIs) on the basis of which their performance can be assessed. Performance indicators will be set together with the goals for each of one.

In the process of evaluating the performances of the employees, there are taken into consideration the responsibilities of the job, the quality and quantity of the work done, the concrete conditions in which it takes place, the results obtained, as well as the following evaluation criteria:

- **Criteria set for the management function:**
  - knowledge of the goals, objectives and role of the department / directorate within the company;
  - the way and the ability to fix goals for the team and the work strategy (including measurement indicators);
  - capacity to evaluate the fulfillment of their goals;
  - capacity to support company values and behaviors derived from them;
  - capacity to define desirable behaviors of subordinate employees;
  - capacity to increase team productivity;
  - capacity to lead the team and be a leader for it;
  - capacity to make optimal decisions and take responsibility for them;
  - orientation towards results;
  - focus on finding solutions and solving problems;
  - ability to adapt to change;
  - ability to create a pleasant and motivating work environment for employees;
  - ability to create in the team he leads a stimulating, no conflictual environment and good collaboration with other teams in the company;
  - preoccupation for the professional development of teammates**.**

- **Criteria for execution functions:**
  - **k**nowledge and professional experience;
  - ability to behave in line with company values (Its behaviors are in line with those defined by the superior manager);
  - ability to contribute and achieve fixed goals;
  - promptness and operability in the fulfillment of the job attributions;
  - capacity to deliver quality results;
  - taking responsibility for decisions through responsiveness, availability to extra effort, perseverance, objectivity;
  - adaptability to change;
  - orientation towards results;
  - capacity to collaborate in team and company;
  - contribute to creating a pleasant work environment;
  - focus on solving problems and finding solutions;
  - preoccupation for professional development;

These evaluation criteria have a general character and are detailed by the performance targets set individually.

Rules applicable to Identified staff

Identified Staff Policy

The Bank performs at least on an annual basis a self-assessment in order to identify the categories of staff having a material impact on the Bank's risk profile.
The process considers the following perspectives:

A. Quantitative and qualitative criteria as prescribed in EU Reg. 604/2014;
   The total remuneration awarded to staff in the preceding financial year are taken into account in the identification at the beginning of the following financial year. Total remuneration includes all monetary and non-monetary fixed and variable remuneration components awarded for professional services in the preceding financial year. For the variable component these can be amounts that have been awarded in the preceding financial year for the complete previous accrual period, independent of the fact that only parts of the variable remuneration were paid

out in the preceding financial year and other parts were deferred (for example for the identification in early 2016 the fixed remuneration awarded and paid in 2015 and the variable remuneration awarded in 2015 for the previous accrual period e.g. 2014 will be added to calculate the amount to be used for the identification under the quantitative criteria).

B. Where needed to ensure a complete identification of all staff whose professional activities have a material impact on the Bank's risk profile, additional criteria set forth by the Bank that reflect the levels of risk of different activities within the Bank and the impact of staff members on the risk profile (e.g. KRIs used as part of the Bank's risk strategy) in addition to the Risk Classification Rules

If an employee qualifies as Identified Staff in accordance with perspective A above, the Bank shall, on the basis of an internal approval process and notification to NBR, treat the technical/ professional activities of that employee as activities without having major impact on the Bank's risk profile, provided the following conditions are met simultaneously:

a) the employee's impacts on the risk profile does not qualify as material according to the results of the risk analysis carried out in accordance with the risk assessment methodology prescribed in the prevailing administrative instruction setting out the Risk Classification Rules.

b) the employee does not actually have a material impact on the Bank's risk profile in view of the absolute amount of the performance-based remuneration that may be allocated to him or her.

The following events will not lead to a person not being considered as pertaining to the Identified Staff category:

a) the full-time employment of the person within the scope is transformed into part-time employment;
b) permanent employment is transformed into fixed-term employment;
c) the person performs his/her tasks based on other work-related legal relationship instead of employment relationship;
d) the person falls or is likely to fall under the qualitative criteria for a period of at least three months in a financial year or performs on a temporary basis for a minimum of 3 months a role which pertains to the Identified Staff category.

Self-assessment process

1 The Human Resources Directorate performs a preliminary identification based on the specific regulatory criteria and based on the results of the application of the Risk Classification Rules performed by Operational and Market Risk Department (Risk Administration Directorate).
2 The list of Identified Staff will be reviewed by the other control functions within the Bank, respectively by Risk Administration Directorate, Compliance Department and Legal Directorate.
3 The list of Identified Staff and any exemptions thereof are approved by the Supervisory Board.
4 The Human Resources Directorate ensures the list of Identified Staff is updated during a financial year if specific changes occur (e.g. changes in roles and responsibilities of staff members). The Risk Administration Directorate should communicate to the Human Resources Directorate any significant changes in the Bank's risk appetite/ risk profile which could lead to additional staff members meeting the Identified Staff criteria and hence to a revision of the list of Identified Staff members. Changes performed during the year to the list of Identified Staff will be subject to Supervisory Board approval only if they are determined by significant changes (e. g. introduction of a new product/ business line, changes in the regulatory requirements with impact on the activities/ authority of staff members, changes in the target risk profile of the Bank/ risk profile outside target level).

The Human Resources Directorate maintains a clear and consistent record concerning the identification process and the staff members included in the Identified Staff category as well as any exemptions applied, which includes at least the following information:

- the results of the self-assessment process, including results of the application of the Risk Clasiffication Rules performed by Operational and Market Risk Department (Risk Administration Directorate);
- the approach used to assess the risks emerging from the Bank's business strategy and activities (e.g. risk strategy for the period under consideration and the current risk profile of the Bank);

- the role and responsibilities of the different units and internal functions involved in the design, oversight, review and application of the self-assessment process;
- the identification outcome which covers:
  - the list of identified staff based on the names (or another unique identifier) and their allocation to business areas as well as when the person entered/ exited the Identified Staff category;
  - key information with regards to the criteria leading to inclusion in the list of Identified Staff (e.g. the job responsibilities and activities);
  - changes since the last assessment.

Fixed to variable ratio

OTP Bank Romania S.A. will not grant Identified Staff members variable remuneration exceeding 100% of the fixed remuneration.

When determining the ratio, the sum of all variable components of remuneration that could be awarded are considered divided by the sum of all fixed components of remuneration to be awarded in relation to the same performance year. Some of the fixed remuneration components may be omitted, where they are not material, e.g. where proportionate non-monetary benefits are awarded.

The Bank sets differentiated fixed to variable ratios while ensuring a sound proportion of the variable remuneration versus fixed remuneration by considering the following:

- the type of activity and potential impact of the individual (e.g. the greater the impact on the achievement of the Bank's objectives, the greater the bonus potential).
- performance evaluation system and method of defining the risk levels.
- organisational structure of the Bank and the position of the employees within the organisational hierarchy.
- risk assumption/decision-making levels allocated to the various positions.

Considering the above as well as functional partitioning, the highest variable remuneration should be defined for business function, followed by support functions, whilst the lowest ratio should be set for control functions.

The allocated ratios for Identified Staff are approved by Supervisory Board.

In case of material financial losses at OTP Bank Romania level, the Supervisory Board can modify the original ratios by reducing the ratio of performance-based remuneration.

In the case of the Identified Staff individual agreements are concluded after decision is taken by the OTP Bank Romania's Supervisory Board concerning the definition of the structure of the performance measurement indicators, deferral schedule, payment in instruments, ex-ante/ ex-post adjustments, etc. The individual agreements shall be concluded by the body exercising employer's rights above the person concerned. The Human Resources Directorate shall be responsible for the preparations of the conclusion of the agreements.

Supervisory Board members

Members of the Supervisory Board can be compensated only with fixed monthly remuneration. Incentive-based mechanisms based on the performance of the Bank are not permitted.

Performance measurement and risk alignment

The rate of performance-based remuneration is established firstly on the basis of the collective evaluation of targets (i.e. bonus pool ex-ante adjustment).

In the case of Identified Staff members the risk alignment process is performed not only at performance measurement process but also as part of deferred remuneration vesting process and as part of the pay-out in instruments process. At each stage of the risk alignment process the variable remuneration is adjusted for all current and future risks taken.

For performance measurement for the awarded the specific variable remuneration the principles related to selection of KPIs and risk adjustments.

Any performance indicators used in performance evaluation will not consider share capital increases performed over the performance assessment period unless specifically considered within the objective setting process.

In the case of Management Board members the performance measurement system will include a RORAC indicator in line with OTP Bank Group remuneration framework provisions. RORAC is calculated based on OTP Bank Group performance measurement and monitoring methodology taking account of the following:

- The value of adjusted profit after tax is to be established by applying the definition of "stock exchange profit or loss", i.e. the accounting profit or loss is adjusted by the special items not related to the business activity (e.g. goodwill impairment, potential one off sales profit or loss from disinvestment, tax imposed on bank, etc.).
- The economic capital is calculated on the basis of OTP Bank Plc.' s internal methodology, with the provision that capital requirement calculated in accordance with the Basel rules is applied as long as the values of the regulatory capital requirement and of the economic capital requirement do not materially differ from each other (adjusted by the SREP rate approved in the Supervision's resolution).

The definition of the target value of the return on risk-adjusted capital (RORAC) applicable to the respective reporting period/ fiscal year is based on the prevailing annual financial plan at OTP Bank Group level. The proposal concerning the target value of the return on risk-adjusted capital (RORAC) for the respective fiscal year is to be submitted to the Supervisory Board for approval based on the proposal of the Strategic and Financial Directorate after validation with OTP Bank Group – by 31 March of the current year.

Payment in instruments

At least 50% of variable remuneration granted will be paid in instruments and subject to deferral as outlines in the following section.
During the deferral period the employees will not have a right to receive compensation equivalent to any dividends/ interest which were distributed for the specific instruments.
Variable remuneration paid in instruments will be subject to 1 year retention after vesting.
The specific type of instruments to be used will be set within the performance-based remuneration plan for an accrual year (e.g. actual shares, synthetic shares etc.).

Deferral

40% the variable remuneration will be subject deferral over a period of 3 years with a pro-rata vesting mechanism.
For Management Board members, the Bank will defer 60% of the variable remuneration over the 3 year period applying the pro-rata vesting mechanism.
The deferred portions will vest if and only if:

- The Bank meets its objectives during the vesting period (financial and risk targets);
- Individual performance criteria is achieved.

For bank level vesting conditions the following minimum criterion shall be used:

- **Financial performance** – indicators reflecting the Bank's profitability;
- **Risk adjusted performance** – RORAC indicator;
- **Key risk indicators** reflecting measuring solvency, liquidity and/ or specific risk indicators (e.g. for credit risk) cost of risk, the cost of collection and return on overdue receivables,

Based on the values of the criteria assessing prudent operation OTP's Supervisory Board shall decide whether the deferred instalments can be paid, with the proviso that based on the evaluation of the individual risks attached to the activity of those concerned, the entitlement to the individual level deferred instalments and the rate thereof shall be defined taking into consideration the following:

- performance of the obligations arising from the employment relationship;
- compliance with the laws applicable to employment, internal regulations, management regulations and the professional requirements applicable to the position;
- compliance with the employer's expectations towards the employee's managerial behaviour;
- review of the operation of the persons and domains concerned (revelation of severe errors, misconducts or shortcomings).

Payment of the deferred part is approved by OTP Bank Romania's Supervisory Board.
In accordance with the deferment schedule the Human Resources Directorate informs the persons concerned in writing about their entitlement to and the rate of the individual instalments as well as the corresponding vesting conditions, based on the Management Body decision.
The settlement of the due deferred instalment takes place as follows:

a) the settlement of the cash part shall take place within 30 days from establishing the entitlement but no later than 30th June the performance-based remuneration is paid by the Employer,
b) the settlement of remuneration converted into shares shall take place within 30 days from establishing the entitlement, but not later than 30th June.

Ex-post adjustment
a/ Criteria and application

Ex-post assessments consider performance indicators, which provide information concerning performance outcomes after the award of the variable remuneration. Such indicators can be qualitative or quantitative and relate to aspects such as:

- participation in or responsibility for conduct which resulted in significant losses to the Bank;
- failed to meet appropriate standards of fitness and propriety;
- misconduct or serious error by the staff member (e.g. breach of code of conduct and other internal rules, especially concerning risks);
- whether the Bank and/or the business unit subsequently suffers a significant downturn in its financial performance (e.g. specific business indicators);
- whether the Bank and/or the business unit in which the identified staff member works suffers a significant failure of risk management;
- significant increases in the Bank's or business unit's economic or regulatory capital base;
- any regulatory sanctions where the conduct of the identified staff member contributed to the sanction.

It would not be possible for the framework to be exhaustive given that the business and economic environment are complex and undergoing significant changes (the professional judgment of the Management Board, Supervisory Board or experts are considered in the assessment).
When ex-post adjustments are applied the Supervisory Board will assess the need to apply ex-ante or ex-post adjustments to all the remaining portions of deferred variable remuneration and variable remuneration which may be awarded in the current year.

Malus

Before the payment of any deferred portions of variable remuneration the Bank performs and assessment with regards to the occurrence of any events which could trigger the application of malus arrangements (i.e. circumstances described above) and the fulfilment of the vesting conditions.

If vesting conditions are not met or if any circumstances/ events as the ones described above are identified which indicate that either the Bank should not pay or the individual should not be entitled to the deferred portion, the Bank shall perform the required assessments and decide not to pay the deferred portion either in part or in full.

Clawback

The performance-based remuneration paid to an individual earlier on must be refunded if the individual is found not up to the requirements pertaining to suitability or conformity by, considering he/she has committed a criminal act or in the case of such serious omission, abuse or defect that had significantly deteriorated the creditworthiness and/or profitability of the Bank.

The Bank can claim any variable remuneration paid within a period of at least three but not shorter than the cumulative period of deferral and retention applicable to that specific variable remuneration.

b/ Process steps

Malus

1. Identified staff is informed when variable remuneration is awarded with regards to the application of malus arrangements and with regards to the ranges of cases which may trigger them.
2. Ex-post assessments are performed before vesting of each portion of the variable remuneration awarded (within 45 days of the regular general meeting closing the business year preceding the due year) by the Human Resources Directorate together with, Compliance and Security Directorate and Risk Administration Directorate.
3. Results are presented to the Supervisory Board who assesses them and takes decision with regards to the application of malus on deferred variable remuneration for the remaining periods.

Clawback

1. Identified staff is informed when variable remuneration is awarded with regards to the application of clawback arrangements as well as with regards to the ranges of cases which may trigger them and the relevant period of application.
2. In accordance with the Bank's internal framework, all staff members are required to report inappropriate behavior of other staff members. Such cases are treated in accordance with the disciplinary procedure and will trigger the requirement to assess the application of clawback arrangements.
3. Risk Administration Directorate will be responsible for reporting to the Management Board, in case of employees, and to Supervisory Board in case of Management Board members, risk events, which had as a source inappropriate behavior (e.g. excessive risk taking, fraud). The Compliance and Security Directorate as well and Internal Audit Directorate are also responsible to report such events (e.g. misconduct in the application of risk management policies or processes identified during their control activities).
4. Regardless, of the statute (employee or member of the Management Board) the Supervisory Board will assess based on specific reports the events triggering the application of clawback and decide upon the measures to be taken by the Bank.

The basic principle of the performance measurement and evaluation system is to link the compensation based on performance with the dual performance system, by correlating the strategic objectives and individual objectives.

The dual system, by emphasizing strategic objectives, contributes to the unequivocal definition of priorities and their monitoring, and also ensures better monitoring of individual performance, thus contributing to the flexibility of the performance measurement system.

The evaluation of the strategic and individual objectives is done separately, on a scale from 0 to 100%, based on the weighting of both types of targets.

The value of performance that will be considered the basis for remuneration is the product of the results of strategic and individual goals, meaning that individual performance is weighted by strategic indicators.

The prudential operational evaluation is based on the following criteria:

a/ Reaching capital over legal minimum capital,

b/ Ensure operations without resorting to mandatory minimum reserves.

We mention that there are no other variable components of remuneration.

- **The remuneration paid in the financial year 2017**

For the year 2017, the following remunerations were paid:

Nr. crt.		Members of the management body in its	Members of the management body in their management	Banking investment services	Retail banking services	Asset management	Corporate functions	Independent control functions	All other areas of activity

		supervisory function	position						
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(1)	No of members of personnel	7	6						
(2)	Total no of employees in equiv. of a full time			22,00	969,50	0,00	165,60	71,75	61,50
(3)	Net profit of N year (in euro)	18.429.988							
(4)	Total remuneration (in euro)	78.812	1.111.991	680.380	16.006.898		3.238.054	1.548.289	1.048.236
(4.1)	Out of which: Variable Remuneration (in euro)	312	312.055	149.164	2.586.310		100.110	8.705	10.965

For the members of identified personnel (including the members of the management body) the quantitative information on remuneration for the year 2017 is presented below:

Nr. crt.		Members of the management body in its supervisory function	Members of the management body in its management function	Investment banking Services	Retail Banking Services	Assets administration	Corporate functions	Independent control functions	All other activity areas
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(1)	**No of members of personnel**	7	6						
(2)	**No of members of Identified staff durring 2017**			1	18		9	5	2
(3)	**No of members of Identified Staff within Management Body**						1	1	
(4)	**Total fixed remuneration (euro), out of which:**	78.500	799.936	68.404	1.006.072		379.868	268.277	63.540
(4.1)	cash	78.500	799.936	68.404	1.006.072		379.868	268.277	63.540
(4.2)	shares								
(5)	**Remuneratie variabila totala (in euro), din care:**	312	556.033	32.757	242.353		47.444	4.281	
(5.1)	cash	312	312.055	32.757	242.353		47.444	4.281	
(5.2)	shares		243.978						
(6)	**Total amount of variable remuneration granted in the fiscal year N and deferred (in euro), out of**		237.086						
(6.1)	cash		118.476						
(6.2)	shares		118.610						

In 2017 there were not registered cases for miscarriage of the conditions for entering in rights in case of deferred remuneration or reduced through performance adjustments.

- **Compensators related to cessation of employment**

In the financial year 2017, no payments were made for new employment or compensation payments for the cessation of employment relationships for members of senior management or members of staff whose actions have a significant impact on the institution's risk profile.

- **The number of persons benefiting from a remuneration of EUR 1 million or more per financial year:**

There are no persons who received a remuneration of 1 million EUR or more in the financial year 2017.

3. RISK MANAGEMENT

3.1 Objectives and policies related to risks management

Within OTP BANK ROMANIA S.A. were established strategies and processes for managing the following risks:

- credit risk;
- risk position and currency risk;
- operational risk;
- residual risk;
- interest rate risk outside the trading portfolio activity;
- concentration risk;
- liquidity risk;
- reputational risk;
- strategic risk;
- external risks.

Within OTP BANK ROMANIA S.A., the risk management is performed by the following subunits:

A) Risk Administration Directorate

Operational and Market Risk Department – which has the role of:

- defining the adequate systems, processes and policies for identification and assessment of the operational and market risks, including pricing, FX and interest rate risks related to the trading portfolio.
- systematic monitoring of compliance with the Bank's risk strategy and operational and market risk management system;
- development and implementation of adequate systems, processes and policies for identifying and assessing operational and market risks.

Credit risk Department – has the role of:

- systematically monitoring of the compliance with the Bank’s risk strategy and the risks management system for lending activity;
- maintaining an appropriate quality of the credit risk portfolio and to control the exposure to credit risk by developing and implementing adequate systems, processes and lending policies;
- developing and implementing appropriate systems, processes and policies for lending risk management;
- Establishing procedures for exposures identification and recording and for their potentially changes, as well as monitoring mechanisms of those exposures, in accordance with the exposure policy.

B) Strategy, Controlling and ALM Directorate

Assets and Liabilities Management Department – has the role to

- ensure the management of liquidity risk and interest rate risk on the banking book (elaborates norms and procedures, strategies; sets limits; defines stress tests scenarios; monitors the liquid assets; defines the methodology of supplementary capital allocation process for liquidity risks and interest rate on the banking book; elaborates internal and external reporting; provides support for finding solutions for covering the risks)
- perform liquidity indicators simulation, in compliance with the NBR’s regulation
- determine supplementary capital requirement for liquidity and interest rate risk on banking book

Risk Controlling Department:

- acts as a controlling function for credit risk

- monitors and reports the risk cost of the bank to top management and group on segments, products
- understand and monitor the key drivers of the risk calculation

Regarding the scope and types of reporting and risks quantification systems, the reports prepared for risks quantification are:

- limits monitoring for various economic sectors, geographic regions and specific Banking products (as required by NBR Regulation no. 5/2013, UE Regulation no. 575/2013);
- monitoring the limits specific to concentration risk management (as required by NBR Regulation no. 5/2013, UE Regulation no. 575/2013);
- monitoring of the limits established by the Bank's Risk Strategy;
- monitoring of the limits in compliance with the internal regulations, according to the Group's Lending Policy, counterparty limits
- annual reports on:
  - internal process for assessing the capital adequacy to risks;
  - measures taken in respect of significant risks management.
- the results of the crisis simulation carried out and measures taken, as consequence by the management structure of the Bank.

3.2 Management Body Declaration

In accordance with the requirements of Article 435, (1) (e) of Regulation No. 575/2013 of the Parliament and the European Council on the prudential requirements for credit institutions and investment companies, the Management body of OTP Bank Romania S.A. declares that the applied risk management systems are adequate taking into account the profile and strategy of the institution. The Bank has adequate risk reporting and monitoring systems that involve risk analysis and portfolio analysis to identify, control and manage the risks, as well as to provide their reporting to the management body of the bank. This statement is approved by the Management body of OTP Bank Romania S.A. by approving this report.

According to the information presented below, the Management body of OTP Bank Romania S.A. declares relating to the Article 435, (1) (f) of Regulation No. 575/2013 of the Parliament and the European Council on the prudential requirements for credit institutions and investment companies that the risk profile is built in accordance with the Bank's risk appetite assumed by OTP Bank Romania SA's Risk Strategy and aims at a sustainable development of the Bank's activity. The Risk Profile is represented by all the risks that a credit institution is exposed to according to the risk appetite assumed by the management structure during the decisional process and the business strategy.

For 2017, starting from Bank's typology and specificity, OTP Bank Romania S.A. targeted a medium general risk profile. The risk appetite expressed for each risk category is represented by the risk level OTP Bank Romania S.A. willingly accepts, according to established business strategy and risk policies, while maintaining under control the risks within the risk profile for each significant risk category taken separately. Bank's risk appetite is defined to match the general risk profile. Bank's risk appetite is defined by means of five risk categories: low, medium-low, medium, medium-high, and high. As a result, Bank's risk appetite was to have a general risk profile at a maximum level of medium. This statement is approved by the Management body of OTP Bank Romania S.A. by approving this report.

The following graphics present the evolution of the main indicators during 2017:

Figure 1 : EBA - defined NPE ratio

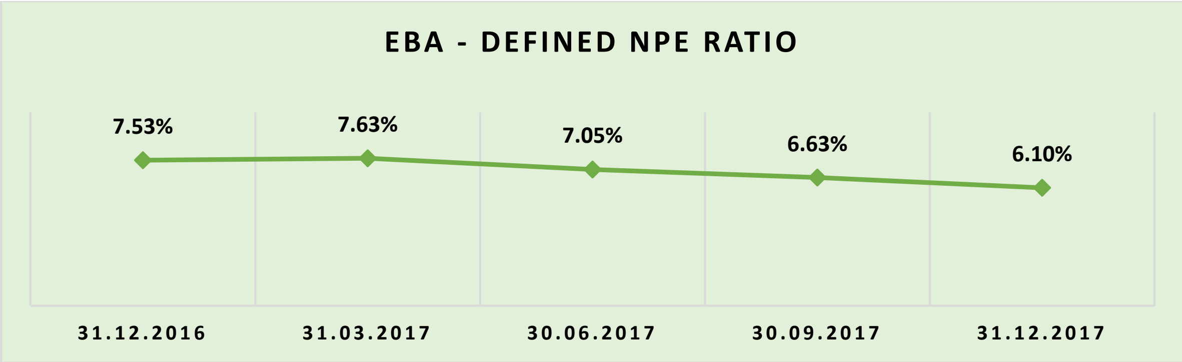


Figure 2: EBA - defined NPE coverage ratio

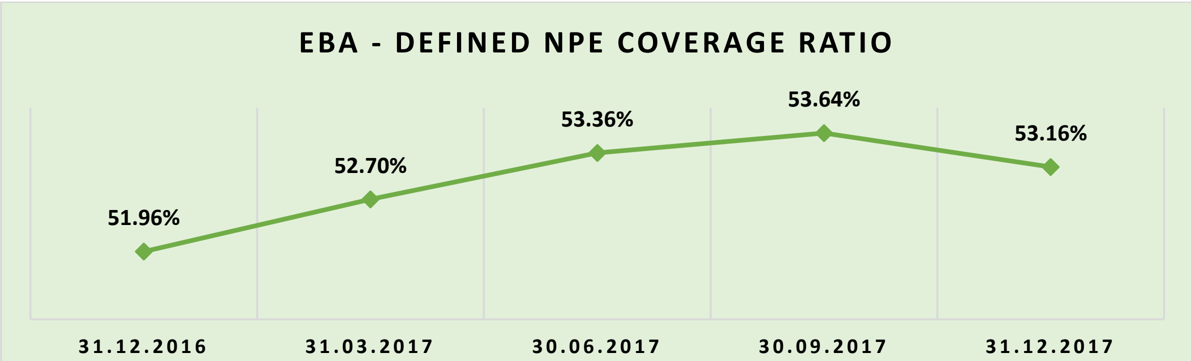


Figure 3 : Return on equity

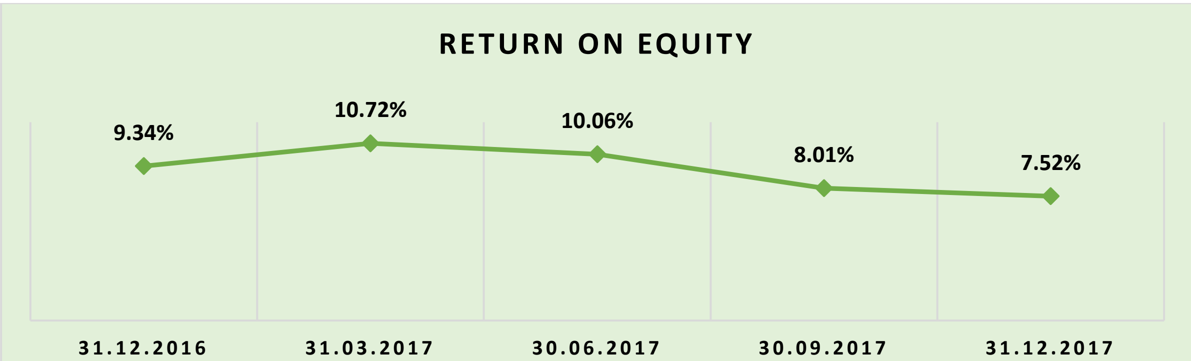
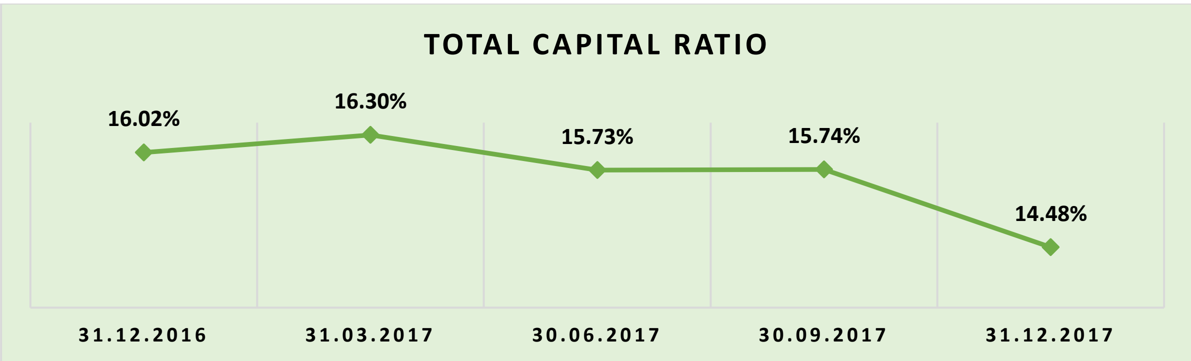


Figure 4: Total capital ratio



The above mentioned indicators show an improvement in the quality of the loan portfolio and a better provisioning of non-performing loans. Also, the solvency is at a comfortable level for the Bank, as is the return on equity.

Further detailed information referring to banks financial results for the financial year 2016 can be found in the Annual Report published on OTP website.

➢ *Affiliates and related parties transactions*

According to NBR Regulation no.5/2013 referring to capital requirements for credit institutions, OTP Bank Romania has established adequate procedures and politics to identify individual exposures and transactions related to affiliated parties, to determine the total amount of this exposures, as well as to monitor and report this type of exposures thru un independent process of verification or of loan activity.

The activity is conduct with respect to the legal provision of art. 399-403 from EU Regulation no. 575/2013, the affiliated parties exposure registered after considering the effect of credit risk reduction during year 2017 is respecting the legal requirement of 25% from its eligible capital or or, if the group of affiliated parties to the institution includes one or more institutions, the exposure value to that group may not exceed either 25% of the eligible credit institution's eligible capital or the equivalent of EUR 150 million depending on which of these the amounts are higher provided that, in the event of the application of the absolute limit, the sum of the exposure values for all related parties which are not institutions, does not exceed, after taking into account the credit risk mitigation effect in accordance with Art. 399-403 of Regulation (EU) No. 575/2013, 25% of the eligible capital of the Bank.
If the equivalent of EUR 150 million is greater than 25% of the eligible credit institution's exposure capital, the exposure value shall not exceed, after taking into account the effect of the credit risk mitigation in accordance with Art. 399-403 of Regulation (EU) No. 575/2013, 100% of the eligible capital of the Bank..

Therefore, on 31.12.2017 the situation of affiliated parties was:

- Individual level (OTP Bank Romania SA)

Numar clienți	Expunere brută (LEI)	Provizioane aferente	Sume exceptate (LEI)			% Fonduri proprii
			fără protecţie	cu protecţie		
				finanţată	nefinanţată	
Non-institutii						
116	100.956.602	5.038.222	0	13.140	0	10,9708377
Institutii						
3	125.387.992	0	0	0	0	14,34344246

- on consolidated level (OTP Bank Romania SA and OTP Leasing):

Numar clienți	Expunere brută (LEI)	Provizioane aferente	Sume exceptate (LEI)			% Fonduri proprii
			fără protecţie	cu protecţie		
				finanţată	nefinanţată	
Non-institutii						
116	10.786.265	5.037.812	0	13.140	0	10,95139933
Institutii						
3	113.0246.545	410	0	0	0	12,92933907

3.3 Strategies and processes for each category of risk management

The general frame for the management of significant risks within OTP BANK ROMANIA S.A. is regulated by the Risk Strategy, in compliance with the stipulations of Government Emergency Ordinance no. 99/2006, with subsequent amendments and completions and Regulation no. 5/2013 on prudential requirements for the credit institutions and EU Regulation no. 575/2013 of European Parliament and Board from June 26, 2013 regarding prudential requests for credit institution and investment firms and modification of Regulation EU no. 648/2012.

3.3.1 Credit Risk Management

A. Objectives and strategy

The Bank's objectives in respect of the credit risk management were related to:

- Increasing the profitability of the credit products;
- Increasing the capacity to collect overdue receivables;
- maintaining the solvency indicator within normal limits sot that the capital requirement for credit risk does not excessively grow;
- Maintaining the portfolio quality through quarterly monitoring of a set of indicators calculated according to the methodology presented by National Bank of Romania.

The Bank's strategy for 2017 related to the credit risk management included:

- continuing to assign priority to managing past due loans that accumulated in the wake of the crisis;
- testing constantly through pilots and champion challengers the appropriateness of the applied strategy in case of PF and SME counterparties with strict limitation in place concerning the exposure taken and risk profile tolerated;
- covered receivables by specialized companies that can help finance clients/prospects with a faster analysis and approval;
- improving the predictive power of risk models and credit monitoring activity;
- developing of a new strategy with Groupama for Agribusiness clients: identify solutions for decreasing the credit risk based on an integrated offer with insurance products;
- putting a heavy emphasis on preventing problems faced by borrowers;
- improving soft collection activities in order to maintain loan portfolio quality: acquisition / development of IT programs for a better management of this activity;
- organizing of Credit Monitoring Committee meetings on monthly basis for a better monitoring of legal entities with early warning signals, clients with exposures equaling or exceeding 4 mil EUR and clients activating in the sectors affected by the crisis;
- organizing Work-out Committees weekly meetings having as purpose the approval of the strategy for recovery of loans in case of legal entities, clients administrated by the Restructuring and Work-out Directorate;
- organizing meetings on a monthly basis in order to monitor the evolution of the bank's strategic products in order to keep the portfolio quality on a high level as possible;
- involving the territorial network and the Corporate Banking Division in managing the problems clients are faced with, as well as in the work-out activity (introducing within the document "Planning and Evaluating Performance"(MBO of territorial units) of the portfolio quality indicators;
- monitoring the quality and evolution of the loan portfolio, monthly and quarterly presentation within the Risk Management Committee of the drawn analyses and situations, as well as the presentation of these materials to Bank's Directorate for information;
- organizing TOP 30 review by the Restructuring and Work-out Directorate where the principal exposures are monitored and further recovery strategies are decided

- Monitoring and modifying the guarantees values so that they reflect as precisely as possible major changes which occurred within different markets (reappraisal of mortgages every three years according to regulations and reappraisal of mortgages for loans included in customer protection program);
- The details of the credit risk profile, both for the corporate banking activity, as well as for the retail banking activity are established within Bank's credit policy, policy which is updated annually.

The Bank does not finance:

- Customers:
  - against whom risk assumption is excluded by international accords, European Union acts and international legal regulations;
  - whose activity presumably violates public morals, social value systems or is related to crimes;
  - which can be possible connected to crimes, directly or indirectly, the conscious violation or evasion of legal regulations.
- Transactions:
  - Aiming to violate legal regulations. Illegal arms trade, prohibited gambling, drug trade and all other activities that breach legal regulations qualify as prohibited business areas (e.g. money laundering, black economy);
  - Do not comply with environmental requirements.

B. Bank's exposure to credit risk and the risk of diminishing the amount of the claim

Definition of "overdue" and "impaired" for accounting purposes

Exposures are overdue when the counterparties did not make a payment at maturity according to the contract.

A financial asset or group of financial assets is impaired and impairment losses are recorded if and only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (called "event that generates a loss ") and that loss event will entail impacts on estimated future cash flows of the financial asset or of the group of financial assets that can be estimated in real life.

According to IAS 39 "Financial Instruments", the criteria for identifying problem assets are:

a. significant financial difficulties of the debtor;
b. breaching contractual terms such as non-payment of principal or interest or failure to comply with other conditions of the contract;
c. the Bank, out of economic or legal reasons related to the financial difficulties of the debtor, shall grant him a concession that the Bank would not otherwise take into account;
d. there is a high probability that the debtor goes into bankruptcy or in other financial reorganization;
e. disappearance of an active market for the financial asset because of financial difficulties; or
f. there is clear data that indicate the existence of a measurable decrease of the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
   - negative change in payment behavior of borrowers in the group or
   - national or local economic conditions that correlate with defaults on assets in the group.

Description of approaches and methods applied to determine specific and general credit risk adjustments

The Bank uses two approaches to estimate the expected losses:

- Individual assessment
- Collective assessment

Individual assessment

Individual assessment is a measurement of impairment of credit exposure conducted for individual client or transaction. According to IAS 39, individual assessment is required for individually significant exposures and may also be used to assess insignificant exposures.

For application of the methodology individual assessment process has been divided into two steps: identification of individual loss events and individual cash flow estimation for provisioning purpose.

In case of legal entities, the recovery amount is the sum of the cash flows that could be obtained in the event of the collateral liquidation, after the deduction of the execution costs, whether or not the liquidation is likely and the future cash flows that could be obtained from the client .

In the case of private individual clients, the book value of the credit is diminished with the accrued cash flows that could be obtained in the event of the collateral liquidation.

Below there are presented the individual provisioning criteria:

a. Recovery and Work Out Directorate managed legal entities clients with individual exposure/ group of connected legal entities clients exposure more than EUR 200,000 equivalent (the limit value of exposure that is significant individually).
b. Legal entities clients in normal management (except those presented above), with individual / group of connected legal entities clients exposure is higher than EUR 200,000 equivalent, for which was revealed after the discussion of the client in the Monitoring Committee and subsequent decision that a "loss event" occurred. All clients with problems (DPD> 15 days, unfulfilled contractual conditions, clients with active restructured loans, client operating in industries affected by the crisis, etc.) and over EUR 200,000 equivalent exposure are discussed centrally in Loans Monitoring Committees. There are also discussed and assessed, depending on collaterals and the possibilities of recovery, the existing default/loss event and the need for individual provisioning
c. Mortgage-backed loans for customers with exposure on this type of product greater than the equivalent of RON 500,000 at the calculation date and for which loss events occurred:
    - At the provision computation date the loan is overdue
    - Until the provision computation date the loan was rescheduled

    The Bank establishes the indications of depreciation as a result of loss-generating events under the Internal Norm regarding Loans provisioning in accordance with International Financial Reporting Standards within OTP Bank Romania S.A.
d. Loans for which Bank's received notifications according with the "Giving in payment law" no.77/2016

Colective assessment

The condition for a group-based assessment is that assets and debtors can be allocated to the homogenous groups according to their major lending risk characteristics and their capability to fulfil contractual obligations, respectively, where such groups embody similar lending risks.

The expected loss is calculated using the migration matrix. The migration matrix shows the proportion of transactions in a given category which have migrated into a different category between the base period and the current period. The length of time between the periods used by OTP Bank Romania S.A. is six months.

In order to determine the migration matrix, the portfolio is divided into different categories based on the number of days of delay.

The Bank prepares a migration matrix from the data received, which describes the transfer of the transactions between the above categories, in respect of the base and the current periods. In the base period, each transaction is in any of the 1-6 categories. If the given transaction is active in the current period, it is in any of categories 1-6. If the transaction was closed for the current period, it is either in 7 or 8 category depending on whether the transaction was closed with normal payment, pre-payment, sales or write-off.

The following table shows the used form of group allocation:

Table 1: Migration matrix categories

No	Category
1	Loans with 0 days delay
2	Loans with a delay of 1-30 days
3	Loans with a delay of 31-60 days
4	Loans with a delay of 61-90 days
5	Loans with a delay of 91-365 days
6	Loans delayed over 365 days
7	Sold, off balance
8	Normally closed (fully repaid in advance or on time)

For calculating the PD indicator, OTP Bank Romania SA calculates the migration matrix for 12 months on a monthly basis and uses the average of the results obtained in this way.

The result of the migration matrix is included in the Basel formula used to calculate the provision:

Provision = EXP x PD x LGD* (1 - RI)

EXP – means the value of credit exposure for which provisions should be created
LGD – loss given default
RI – represents the percentage of the number of transactions that were in default and came out of default by natural way over a period of t months.

For loans that meet the criteria stipulated within the Law no.77/2016, the Bank calculates an additional provision according to rules established based on expert judgment.

3.3.2 The management of the concentration risk

The concentration risk is that kind of risk arising from exposures towards counterparties, groups of related counterparties and counterparties from the same economic sector, geographic region or the same activity or goods or credit risk mitigation techniques and includes particularly the risks with large indirect exposures to credit risk (e.g. towards a single collateral issuer).

Concentration risk is measured and mitigated through the use of internal limits. Setting the internal limits shall be done after analyzing the structure of the loan portfolio, including its estimate trends.

In order to manage the concentration risk, the Bank assumes a MEDIUM to HIGH level of concentration risk, because it has a solid limits system and procedures that are periodically amended in accordance to the market and portfolio evolution.

3.3.3 Quantitative and qualitative information on credit and concentration risks

The following table shows the total and average net exposure over the period divided by exposure classes:

Table 2: Total and average net exposures

(ths.RON)	Net value of exposures at the end of the period	Net average exposures related to the period
Central governments or central banks	1,562,097	1,236,803
Regional governments or local authorities	8,092	8,955
Public sector entities	6,883	5,128
Institutions	216,639	520,249
Companies	3,355,409	2,889,425
Retail	2,952,801	2,888,045
Exposures secured by mortgages on immovable property	2,128,528	2,322,906
Exposures in default	203,768	253,486
Collective investment (OPC)	7,669	7,508
Other items	515,464	539,909
Total	**10,957,349**	**10,672,414**

In order to analyze the diversification of the loan portfolio, OTP Bank Romania S.A. aims to distribute the portfolio on the five geographical regions in which it divided the country's territory.

Table 3: Geographic distribution of the exposures

(ths.RON)	Center	North East	North West	Soth East	South West	Other countries	Other areas	Total
Central governments or central banks	-	-	-	570,609	991,488	-	-	1,562,097
Regional governments or local authorities	2,138	422	-	5,147	386	-	-	8,092
Public sector entities	-	-	-	6,883	-	-	-	6,883
Institutions	14,709	779	3,325	82,119	66,848	48,749	110	216,639
Companies	461,302	395,484	428,701	1,906,087	115,488	-	48,347	3,355,409
Retail	386,408	393,972	421,370	1,353,781	397,270	-	-	2,952,801
Exposures secured by mortgages on immovable property	317,545	241,504	378,814	867,074	323,591	-	-	2,128,528
Exposures in default	38,657	49,488	35,614	65,372	14,637	-	-	203,768
Collective investment (OPC)	-	-	-	7,669	-	-	-	7,669
Other items	21,794	15,078	19,678	220,820	18,993	-	219,101	515,464
Total	**1,242,552**	**1,096,726**	**1,287,503**	**5,085,562**	**1,928,700**	**48,749**	**267,558**	**10,957,349**

The Bank monitors quarterly the concentration of the portfolio within the limits set by the risk strategy. Below are the exposure classes according to the main sectors of activity as of end of 2017:

Table 4.a. : Concentration of exposures by sector and type of counterparty

(ths.RON)	Accommodation and food service activities	Administrative and support service activities	Agriculture, forestry and fishing	Arts, entertainment and recreation	Construction	Educati on	Electricity, gas, steam and air conditioning supply
Central governments or central banks	-	-	-	-	-	-	-

Regional governments or local authorities	-	-	-	-	-	-	-
Public sector entities	-	-	-	-	-	-	-
Institutions	-	4,327	-	-	-	-	-
Companies	71,813	61,015	270,044	-	236,128	-	250,170
Retail	32,315	6,724	158,142	11,502	98,935	1,279	21,027
Exposures secured by mortgages on immovable property	6,669	2,969	14,423	1,874	20,244	75	2,726
Exposures in default	2,884	4,325	23,998	425	17,206	12	15,815
Collective investment (OPC)	-	-	-	-	-	-	-
Other items	124	115	97	56	399	11	99
Total	**113,805**	**79,474**	**466,703**	**13,857**	**372,911**	**1,376**	**289,837**

Table 4.b.: Concentration of exposures by sector and type of counterparties

(ths.RON)	Financial and insurance activities	Human health and social work activities	Information and communication	Manufacturing	Mining and quarrying	Other service activities
Central governments or central banks	-	-	-	-	-	-
Regional governments or local authorities	-	-	-	-	-	-
Public sector entities	-	-	-	-	-	-
Institutions	90,705	-	-	3,269	-	115,401
Companies	40,600	6,318	6,254	747,626	101,020	50,133
Retail	6,188	1,698	23,330	145,527	3,134	9,305
Exposures secured by mortgages on immovable property	3,668	936	2,170	28,442	-	4,741
Exposures in default	492	-	8	29,892	-	16
Collective investment (OPC)	7,669	-	-	-	-	-
Other items	10,418	22	72	2,197	47	57
Total	**159,739**	**8,974**	**31,834**	**956,953**	**104,200**	**179,653**

Table 4.c.: Concentration of exposures by sector and type of counterparty

(ths.RON)	Professional, scientific and technical activities	Public administration and defence; compulsory social security	Real estate activities	Transportation and storage	Water supply, sewerage, waste management, and remediation	Wholesale and retail trade; repair of motor vehicles and motorcycles	Others

					activities		
Central governments or central banks	-	1,562,097	-	-	-	-	-
Regional governments or local authorities	-	8,092	-	-	-	-	-
Public sector entities	-	6,883	-	-	-	-	-
Institutions	-	-	2,886	51	-	-	-
Companies	95,438	-	403,621	182,937	16,019	816,276	-
Retail	44,221	-	256,915	18,937	7,967	328,063	1,777,593
Exposures secured by mortgages on immovable property	7,737	-	14,549	13,622	8,312	92,762	1,902,610
Exposures in default	1,711	-	8,242	1,176	44	37,813	59,708
Collective investment (OPC)	-	-	-	-	-	-	-
Other items	220	9	2,139	373	17	1,177	497,816
Total	**149,327**	**1,577,081**	**688,351**	**217,097**	**32,357**	**1,276,092**	**4,237,726**

In terms of maturity of loans, the Bank has a predominantly long-term loan portfolio:

Table 5: Maturity of exposures

(ths.RON)	On demand	<= 1 year	> 1 year <= 5 years	> 5 years	No maturity declared	Total
Central governments or central banks	-	71,132	231,644	267,840	991,481	1,562,097
Regional governments or local authorities	-	386	5,569	2,138	-	8,092.3
Public sector entities	-	6,883	-	-	-	6,883.1
Institutions	0	126,356	31,845	5,295	53,143	216,638.9
Companies	2	1,875,590	850,487	621,070	8,260	3,355,409.4
Retail	44	670,291	1,068,075	1,213,592	799	2,952,800.7
Exposures secured by mortgages on immovable property	-	135,445	94,137	1,898,946	-	2,128,527.5
Exposures in default	0	104,416	33,983	63,965	1,404	203,767.8
Collective investment (OPC)	-	-	-	-	7,669	7,668.7
Other items	-	1	538	-	514,925	515,463.5
Total	**46**	**2,990,498**	**2,316,278**	**4,072,846**	**1,577,680**	**10,957,349**

Table 6: Non-performing and restructured exposures

ths. RON	Gross book value for non-performing and non-performing exposures							Depreciations, provisions and adjustments of negative cumulative fair value determined by credit risk				Material and financial guarantees received	
		Of which performant, but DPD > 30 days and <= 90 days	Of which restructured performing exposures	Of which non-performing				Asupra expunerilor performante		Asupra expunerilor neperformante			
					Of which in default	Of which depreciated	Of which restructured		Of which restructured		Of which restructured	On non-performing exposures	Of which restructured exposures
Debt securities	587,934	-	-	-	-	-	-	-	-	-	-	-	-
Credits and advances	8,376,197	126,285	101,820	511,086	-	-	230,580	(59,321)	(5,528)	(261,423)	(106,860)	212,585	205,079
Off balance exposures	1,850,225	-	1,152	8,656	7,193	-	667	7,552	-	-	-	-	-

The table below shows the movements in depreciation adjustments.

Table 7: Changes in the stock of credit risk adjustments

(ths. RON)	**December 31,2017**
Opening balance	367,619
Increases due to adjustments made for probable losses on loans, estimated during the period	332,821
Decreases due to impairment adjustments reversed for probable losses on loans, estimated during the period	312,418
Discounts due to impairment adjustments cancellations	40,209
Transfers between adjustments	-
Other adjustments	27,069
Closing balance	**320,744**
Recoveries registered directly in the profit or loss account	-
Value adjustments recorded directly in the profit or loss account	-

3.3.4 Using credit risk mitigation techniques

The bank has developed internal regulations which state the types of accepted collaterals regarding contracts which imply any level of exposure, as well as the conditions for accepting these collaterals. At the same time, the Bank makes efforts to include, as part of loan transactions, collaterals which do not have a guarantee value, in order to improve the safety of the lending process and to consolidate the solvability of its debtors.

The policies and processes used for the assessment and management of real collaterals contain the following:

a. the legal provisions and types of collateral most frequently used as guarantee in loans contracts
b. the criteria and factors which serve as basis for collateral valuation, depending on collateral type
c. the requirements for the legal options for enforcement of collaterals and the acceptability of their values

d. methods applied for collateral valuation
e. procedures to be applied in case changes appear with respect to collateral availability, valuation and the legal options for enforcement of collaterals
f. the frequency of periodical reevaluation of collaterals.

The main types of collaterals accepted by the Bank during the credit process are:

Table 8: Type of collaterals

Crt. No.	COLLATERAL TYPE
1	Mortgages
2	Claims on central and local public administrations, insurance companies, Central Bank and Banking activity sector
3	Pledges
4	Securities
5	Items in collection - Order of payment, checks, promissory notes
6	Cession of incomes, invoices and other
7	Collateral to another Bank
8	Collateral cash, cash
9	Guarantee fund facility
10	Life insurance and financial risk

Evaluation and management of these types of collateral is defined in the Bank's internal regulations approved by the National Bank of Romania. Depending on the type of guarantee, their evaluation is either outsourced or done internally.

3.3.5 Management of the large exposures towards clients or group of connected clients

According to the stipulations of the EU Regulation no. 575/2013 of the European Parliament and of the Council from June, 26th 2013 on prudential requirements for credit institutions and investment firms and amending EU Regulation no.648/2012, the Bank monitors and quarterly calculates the exposures towards third parties, identifies the large exposures and reports them to the NBR and inform about them the Risk Management Committee and Management Board.

3.3.6 Management of the countries exposures

The country risk is associated to the credit risk, determined by the economic, social and politic conditions of the borrower's country of origin.

The country risk is managed through permanent monitoring of the evolutions in those countries where the Bank registers exposures and by taking decisions related to the available limits, when appropriate. Also, country risk will be considered by Treasury Directorate in all risk assumptions towards counterparties, particularly towards the Banks that are making deals with.

The Risk Management Committee oversees the use and compliance of the country limits.

3.3.7 Management of the counterparty's exposures

The Bank maintains a detailed list of approved limits for counterparties. The list of Banking Counterparties and Financial Institutions is kept and renewed by the Operational and Market Risk Department who defines in detail the limits for each counterparty, on specific products and maximum period.

The limit for a counterparty is determined based on:

- counterparty's rating

- the counterparty's regulatory capital
- aspects related to the business strategy, along with the compliance with legal provisions regarding risk taking activity.

The amount of the counterparty's limit is determined taking into consideration the weight of the counterparty's rating category and the counterparty's own funds.

During the process of limit setting for a counterparty, the Bank also respects the provisions of EU Regulation 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.The counterparty limits are approved by OTP Bank Nyrt. Hungary and the Operational and Market Risk Department has the responsibility to perform the financial analysis and to manage the counterparty limits, to monitor the exposures and to present them to the Risk Management Committee. Regarding the limits with credit institutions used daily by Treasury Directorate, The Operational and Market Risk Department within Risk Administration Directorate, updates the limits in Fusion Risk system (implemented at OTP Bank Nyrt), in order to determine at any time the available limits. The Operational and Market Risk Department presents a quarterly report to Risk Administration Directorate regarding the bank's exposure to counterparty.

3.3.8 Residual Risk Management

The residual risk is the risk that the techniques of credit risk mitigation used by the Bank to be less effective than expected.

The residual risk derives from the application of the techniques of credit risk mitigation, used in accordance with the minimum requirements for calculating the capital.

The Bank's objective related to the management of the residual risk is given by the monitoring and maintaining the values of certain indicators within the limits set by the Bank.The risk profile for 2017, OTP Bank Romania S.A. targets a MEDIUM -LOW level of exposure to residual risk taking into account that the weight of personal and financial guarantees is very reduced.

3.3.9 Market Risk Management

The market risk is the risk that the movement of the prices on the financial markets (exchange rates, interest rates, value of the shares and other securities, the prices commodities, etc modify the value of the trading portfolio (Trading Book) of the Bank. This definition can be extended so that it also includes the interest risk given by the products outside of the trading portfolio (Banking Book).

The bank targets a medium level of market risk. For this purpose, market risk level will be permanently measured and monitored in view of its mitigation.

Objectives

The purpose of managing market risk is to minimize the potential losses that may be caused by the unfavorable evolution of exchange rates, interest rates and shares prices. At the same time, OTP Bank Romania SA aims to maintain market risk at a level correlated with the Group's business strategy.

Strategy

The Bank's strategy related to the market risk management includes:

- the management of a trading portfolio within the approved limits;
- maintaining a specialized, dedicated department for the Market Risk;
- improving the existing procedures for management and monitoring exchange rate risk and position risk;
- professional training of the employees involved in the market risk monitoring activity;
- ensuring the methodology and technical support for the implementation of the operation with derivative transactions;

- updating the reporting flow that highlights the evolution of exposure and the monitoring of the imposed limits for this type of activity, on a monthly and quarterly basis, that are to be submitted for information to the Risk Management Committee.

3.3.10 Foreign currency risk

The Bank is engaged in proprietary trading on foreign currency market. The Bank may perform transactions and open only for the following foreign currency position: EUR, USD, GBP, CHF, CAD, JPY, HUF, AUD, SEK, DKK, NOK, and PLZ. New foreign currencies can be included with the approval of the Product Development, Sales and Pricing Committee.

The foreign currency risk monitoring is insured through compliance with the defined internal limits.

The risk limits established for the foreign currency position (that is the main tool for measuring the currency risk) are prudent and there is a VaR type system that centrally monitors this position by the OTP Group in the informatics application Market Risk Portal. Also, limits were set for the open foreign currency position for each currency (intraday and overnight), VaR limit and stop-loss limits (daily, monthly, annual). The indicators that have established limits are monitored daily, with special attention being paid to risk coming from trading activities.

VaR is a statistically measure used to determine a potential loss. VaR is defined as the maximum estimated loss by a certainty given degree (interval), for a given period, caused by the variation of risk elements in that specific period.

3.3.11 Interest Rate Risk

Interest rate risk is the risk of registering losses or not accomplishing the estimated profits due to interest rates fluctuations on the market. The management of this risk concerns the balance and extra balance sheet items that are sensitive to changes of the interest rates. The Bank manages the interest rate risk in the Banking Book separately from the interest rate risk in the Trading Book.

- **Interest Rate Risk in the trading portfolio**

In order to manage the interest rate risk in the Trading Book, the following limits are established: bond position limit, Value at Risk (VaR) limit, Basis Point Value limits and stop-loss limits. The limits are monitored at OTP Bank Romania level and throughout OTP Bank Group using the Kondor+ and Market Risk Portal systems.

- **Interest Rate Risk outside the trading portfolio**

The main sources of interest rate risk in the Banking Book are given by the imperfect correlation between the maturity date of cash-flows (for assets and liabilities bearing fixed interest rates) or modification date (re-pricing) interest (in case of assets and liabilities bearing variable interest rates), the adverse evolution of rate yield curve (the unparalleled evolution of interest rates return on assets and interest bearing liabilities) and/ or imperfect correlation between changes of the interest rates for funds raised and placed on instruments with similar characteristics of interest rate re-pricing.

OTP BANK ROMANIA S.A. manages exposure to interest rate risk on Banking Book with the view of limiting the potential losses due to adverse movements of the interest rates, so these potential losses cannot jeopardize the Bank's profitability, own capital and safe operation.

For the purpose of measuring and managing this risk, the Bank uses the re-pricing gap analysis, the modified duration indicator analysis, the sensitivity, extreme market scenarios, observing the possible effects of the changes in interest rates on Bank profits and economic value.

For reporting purposes, the Bank uses the contractual maturity and cash flows for assets and liabilities that are sensitive to interest rate – adjusted for optionality risk (early prepayment/ withdrawal of loans/ deposits), as well as working hypotheses for items that do not have clearly specified contractual maturity. The Bank grants loans mainly with variable interest rate indexed by a reference public rate (benchmark ex.: Euribor, Robor) and aims to harmonize as possible the financing structure with the structure of assets so that to maintain a low interest rate risk exposure of the Bank.

The average maturity of customer resources, remained at a level where the Bank considers that is appropriate with the current structure of the balance sheet.

Interest rate risk exposure har remained similar to the previous year level and the bank has stayied the entire year withing the mediu-low assumed risk profile level.

Banking book interest rate risk exposure in crisis simulations as of 31.12.2017

Standard stress test - changes of interest rates with 200 basis points (parallel shift) adjusted for loans and deposits optionality risk

BNR Standardized approach - Modified duration

Thousand	< 1 year	1-5 years	> 5 years	Total, by currency
RON	12,491	12,584	-443	24,631
EUR	813	514	-196	1,131
CHF	718	113	1,484	2,314
USD	-27	-7	65	31
OTHER	-40	0	0	-40
Total currencies (RON eq.)				**39,215**
Exposure (% of Own funds)				**4.08%**

To assess the risk of interest rate the Bank uses sensitivity indicators that measure the potential impact in economic value of the balance due to the parallel variation to 100 bp and to 200 bp of interests.

To evaluate the vulnerability of the Bank to losses in case of adverse fluctuation of the interest rates, the Bank makes stress tests that show the impact of interest rates shocks in the economic value of the Bank.

At December 31, 2017, Bank performed stress tests applying different shocks for the modification of the market interest rates by 250 bp, 300 bp. The decline of the economic value in all scenarios mentioned above registered comfortable levels within the monitored limits established through internal and NBR regulations.

The interest rate risk for those activities outside the trading portfolio is determined on a monthly basis by the Asset & Liability Management Department within Strategy, Controlling and ALM Directorate. The risk exposure (risk profile included), compliance with the internal and NBR limits is presented monthly to the Asset & Liability Committee and periodically to the Management and Supervisory Board.

OTP Leasing has a simple interest rate risk structure. Most loan, as well as funding received, are of floating rate type with 3 months repricing period. Fixed rate loans are hedged for interest rate risk using fixed rate funding.

Interest rate risk is measured by OTP Leasing using the same method as the bank. The exposure is also monitored at consolidated level. Given the size and profile of OTP Leasing's interest risk profile the effect at consolidated level is not significant.

3.3.12 Management of the Liquidity Risk and disclosure requirements for Liquidity Risk in accordance with article 435 of Regulation (EU) No 575/2013

- **Strategies and processes in the management of the liquidity risk**

OTP BANK ROMANIA S.A. aims to maintain a constant comfortable liquidity in both normal and crisis conditions, taking also into account the issue of the cost of obtaining this liquidity.

- **Structure and organization of the liquidity risk management function**

The management of the liquidity risk function is provided by the Asset & Liability Management Department within Strategy, Controlling and ALM Directorate. Monitoring the tools for the management of the liquidity risk to which the Bank is exposed, the values of the indicators and setting them into limits are monthly reported to the ALCO and periodically to the Risk Management Committee, the Management Board and Supervisory Board of the Bank.

Close monitoring and prudent management of liquidity are permanently supervised by the Asset & Liabilities Committee and at the Group level.

- **Scope and nature of liquidity risk reporting and measurement systems**

Based on the Liquidity Strategy and Policy on liquidity risk management, constantly improved and updated in accordance with prudential regulatory requirements of the domestic market and also of the group, OTP BANK ROMANIA S.A. has developed and uses an internal system for identification, measurement, monitoring and control of the liquidity risk, based on several levels:

- ***Current management of liquidity*** – developing the current activity in normal condition. Ensure the fulfillment of financial obligation anticipated and unexpected by maintaining the balance between incoming and outgoing cash. Determining the daily cash flow and operative liquidity to cover liquidity needs on 3 months horizon are the basic used tools. In the case of operative liquidity, prudential, is included a possible shock applied to attracted resources, determined by statistical methods.
- ***Structural liquidity management*** - aims to ensure proper liquidity on medium and long term in order to avoid any pressure on current and future sources of liquidity.
- ***Liquidity management in crisis situations*** - the pursuit of activity on individual crisis conditions (idiosyncratic scenario), in conditions of a general crisis, when the entire liquidity of the Banking system is affected, and also for another more complicated situation including both an individual and generally system crisis. The Bank follows to ensure enough liquidity reserve so it allows to fulfill its financial obligations in stress situations on an acceptable time horizon, without being forced to modify significantly its strategy or business model.

OTP BANK ROMANIA S.A. manages the liquidity risk having in view: the dimensioning of the short-term cash-flow and operative liquidity, the daily established structure of the Bank's balance sheet, the daily evolution of customer resources, the liquidity GAP – on main currencies and also for the total, the level and structure of the liquid assets portfolio (including those unencumbered by tasks), liquidity indicators and having early warning limits internally established, the assessment of the risk in crisis conditions based on the stress testing.

Policies for hedging and mitigating the liquidity risk and strategies and processes for monitoring the continuing effectiveness of hedges and mitigants

The bank's funding structure is comprised of a significant part of Group funding (around 30% of total liabilities). In the management of liquidity OBR assumes that maturing Group funding can be rolled over and that new Group funding can be accessed according to approved budgets or to meet any liquidity need during the normal course of business.

For liquidity contingency planning, supplementary to the bank's own on balance sheet liquidity, stand-by lines from the OTP Group are considered as available liquidity.

Other than Group funding there are is no other concentration of funding on other funding providers.

The bank monitors the level of available liquidity and Group Stand-by facilities compared to various crisis scenarios and takes appropriate actions (increasing funding including thru use of new Group funding, increasing liquid assets) based on the results, on the bank's budget and the bank's strategy.

Declaration on the adequacy of liquidity risk management arrangements of the institution

The bank considers that the liquidity management process to be adequate with regards to the bank's liquidity risk profile and strategy and in the context of the Group's liquidity policy. Group liquidity can be used to support the bank's strategy.

Liquidity risk statement describing the overall liquidity risk profile associated with the business strategy.

The liquidity risk profile of the bank is comprised of a set of indicators considered relevant to the bank's liquidity position and funding structure: standard regulatory indicators (LCR, immediate liquidity); balance sheet ratios (loans/deposits, liquid assets/potential liabilities outflows in the next 12 months), measures of Group Funding dependency, internal liquidity indicators and liquidity crises simulation results.

Liquidity risk profile of the Bank has remained constant over the course of 2017, registering a medium-low level (assumed risk appetite of the Bank for 2017) level and fits within the limits set by national regulatory framework as well within the bank's risk tolerance of medium-high.

The Liquidity Coverage Ratio (LCR):

The LCR is intended to promote the short-term resilience of a bank's liquidity risk profile over a 30 days stress scenario. The ratio is defined as the amount of High Quality Liquid Assets ("HQLA") that could be used to raise liquidity, measured against the total volume of net cash outflows, arising from both actual and contingent exposures, in a stressed scenario.
This requirement has been implemented into European law, via the Commission Delegated Regulation (EU) 2015/61, adopted in October 2014. Compliance with the LCR was required from October 1, 2015.

The final EBA guidelines on LCR disclosure released on the March 8, 2017 (EBA/GL/2017/01) requires us to disclose the average of month-end observations over twelve months preceding the end of each quarter.

Average LCR (twelve months average) has been calculated in accordance with the Commission Delegated Regulation (EU) 2015/61 and the EBA Guidelines on LCR disclosure to complement the disclosure of liquidity risk management under Article 435 CRR. Due to changes of the calculation method in October 2016, the averages referring to reports prior to this date contain data calculated using fewer data points.

Concentration of funding and liquidity sources:

The only concentration of funding is related to Group Funding obtained to various Group entities (30% of total liabilities). The bank considers that maturing Group funding can be rolled over at any time.

Derivative exposures and potential collateral calls:

The majority of derivative cash outflows are offset by similar derivative cash inflows.

Currency mismatch in the LCR:

The LCR is calculated in all major currencies that make up at least 5% of the total Liabilities (RON, EUR and aggregated in RON). No explicit minimum LCR level is set for specific currencies, however, all results are monitored.

Approach to centralized group liquidity management and individual legal entity liquidity management:

The OTP Group manages liquidity in a centralized manner, using a liquidity pooling concept, and preparing at Group level for liquidity contingency situations at subsidiary level. OTP Leasing Romania Funding is also covered by other entities in the OTP Group

Other items in the LCR calculation that are not captured in the LCR disclosure template but that are relevant for the liquidity profile:

The Pillar 3 disclosure obligations require Banks to disclose the 12 months rolling averages for each quarter. Due to changes of the calculation method in October 2016, the below table includes six data points (October 2016 – March 2017), the June 2017 LCR includes nine data points (October 2016 – June 2017) and the September 2017 and December 2017 LCR calculation includes twelve data points respectively. Starting December 2016 the bank has performed further adjustment to the calculation methodology resulting in a lower calculated LCR level.

	Scope of consolidation : solo Currency and units (RON million)	Total unweighted value	Total weighted value	Total unweighted value	Total weighted value	Total unweighted value	Total weiehted value	Total unweighted value	Total weiehted value
	Quarter ending on (DD Month YYY)	31.12.2017	31.12.2017	30.09.2017	30.09.2017	30.06.2017	30.06.2017	31.03.2017	31.03.2017
	Number of data points used in the calculation of averages	12	12	12	12	9	9	6	6
HIGH-QUALITY LIQUID ASSETS									
1	Total high-quality liquid assets (HQLA)		852		791		790		779
CASH-OUTFLOWS									
2	Retail deposits and deposits from small business customers, of which:	1,762	134	1,696	128	1,659	123	1,653	124
3	*Stable deposits*	1,196	60	1,161	58	1,155	58	1,145	57
4	*Less stable deposits*	566	74	535	70	505	66	508	67
5	Unsecured wholesale funding	1,822	988	1,824	1,031	1,789	1,021	1,771	1,049
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	-	-	-	-	-	-	-	-
7	*Non-operational deposits (all counterparties)*	1,822	988	1,824	1,031	1,789	1,021	1,771	1,049
8	*Unsecured debt*	-	-	-	-	-	-	-	-
9	Secured wholesale funding		-		-		-		-
10	Additional requirements	244	27	205	23	190	21	171	19
11	*Outflows related to derivative exposures and other collateral requirements*	1	1	1	1	-	-	-	-
12	*Outflows related to loss of funding on debt products*	-	-	-	-	-	-	-	-
13	*Credit and liquidity facilities*	243	27	204	23	190	21	171	19
14	Other contractual funding obligations	149	137	125	113	119	107	107	96
15	Other contingent funding obligations	965	50	947	48	968	50	988	51
16	**TOTAL CASH OUTFLOWS**		1,336		1,343		1,322		1,339
CASH-INFLOWS									
17	Secured lending (eg reverse repos)	-	-	-	-	-	-	-	-
18	Inflows from fully performing exposures	702	621	679	596	628	541	628	537
19	Other cash inflows	26	6	30	7	31	6	31	6
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)		-		-		-		-
EU-19b	(Excess inflows from a related specialised credit institution)		-		-		-		-
20	**TOTAL CASH INFLOWS**	727	627	709	603	659	548	659	543
EU-20a	***Fully exempt inflows***	-	-	-	-	-	-	-	-
EU-20b	***Inflows Subject to 90% Cap***	-	-	-	-	-	-	-	-
EU-20c	***Inflows Subject to 75% Cap***	727	627	709	603	659	548	659	543
			TOTAL ADJUSTED VALUE		TOTAL ADJUSTED VALUE		TOTAL ADJUSTED VALUE		TOTAL ADJUSTED VALUE
21	**LIQUIDITY BUFFER**		**852**		**791**		**790**		**779**
22	**TOTAL NET CASH OUTFLOWS**		**717**		**703**		**725**		**718**
23	**LIQUIDITY COVERAGE RATIO (%)**		**120%**		**116%**		**112%**		**113%**

OTP Leasing has a low level of liquidity risk. The entire funding need is covered by Group entities. Short term needs are covered from available funds or existing revolving facilities. Once the utilization level of the facilities increases it is converted into medium/long term funding. OTP Leasing monitors liquidity risk at standalone level using a liquidity gap analysis including a 6 month projection of business needs in order to allow timely undertaking of new funding.

With no client funding the impact of OTP Leasing on the consolidated liquidity risk is not significant.

	Scope of consolidation : consolidated Currency and units (RON million)	Total unweighted value	Total weighted value	Total unweighted value	Total weighted value	Total unweighted value	Total weiehted value	Total unweighted value	Total weiehted value
	Quarter ending on (DD Month YYY)	31.12.2017	31.12.2017	30.09.2017	30.09.2017	30.06.2017	30.06.2017	31.03.2017	31.03.2017
	Number of data points used in the calculation of averages	12	12	12	12	12	12	12	12
HIGH-QUALITY LIQUID ASSETS									
1	Total high-quality liquid assets (HQLA)		852		791		790		779
CASH-OUTFLOWS									
2	Retail deposits and deposits from small business customers, of which:	1,762	134	1,696	128	1,659	123	1,653	124
3	*Stable deposits*	1,196	60	1,161	58	1,155	58	1,145	57
4	*Less stable deposits*	566	74	535	70	505	66	508	67
5	Unsecured wholesale funding	1,815	981	1,813	1,020	1,776	1,008	1,754	1,033
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	-	-	-	-	-	-	-	-
7	*Non-operational deposits (all counterparties)*	1,815	981	1,813	1,020	1,776	1,008	1,754	1,033
8	*Unsecured debt*	-	-	-	-	-	-	-	-
9	Secured wholesale funding		-		-		-		-
10	Additional requirements	259	29	220	25	205	23	185	20
11	*Outflows related to derivative exposures and other collateral requirements*	1	1	1	1	-	-	-	-
12	*Outflows related to loss of funding on debt products*	-	-	-	-	-	-	-	-
13	*Credit and liquidity facilities*	258	28	219	24	205	23	185	20
14	Other contractual funding obligations	153	137	129	113	122	107	110	96
15	Other contingent funding obligations	958	49	943	48	964	50	985	51
16	**TOTAL CASH OUTFLOWS**		1,330		1,334		1,310		1,323
CASH-INFLOWS									
17	Secured lending (eg reverse repos)	-	-	-	-	-	-	-	-
18	Inflows from fully performing exposures	708	624	684	599	633	544	633	539
19	Other cash inflows	26	6	30	7	31	6	31	6
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)		-		-		-		-
EU-19b	(Excess inflows from a related specialised credit institution)		-		-		-		-
20	**TOTAL CASH INFLOWS**	733	630	714	606	664	550	663	546
EU-20a	***Fully exempt inflows***	-	-	-	-	-	-	-	-
EU-20b	***Inflows Subject to 90% Cap***	-	-	-	-	-	-	-	-
EU-20c	***Inflows Subject to 75% Cap***	733	630	714	606	664	550	663	546
			TOTAL ADJUSTED VALUE		TOTAL ADJUSTED VALUE		TOTAL ADJUSTED VALUE		TOTAL ADJUSTED VALUE
21	**LIQUIDITY BUFFER**		**852**		**791**		**790**		**779**
22	**TOTAL NET CASH OUTFLOWS**		**706**		**690**		**711**		**700**
23	**LIQUIDITY COVERAGE RATIO (%)**		**121%**		**118%**		**115%**		**116%**

The Net Stable Funding Ratio (NSFR):

Basel 3 also contains a proposal to introduce a net stable funding ratio (NSFR) to reduce medium to long-term funding risks by requiring banks to fund their activities with sufficiently stable sources of funding. The NSFR requires banks to maintain a stable funding profile in relation to their on- and off-balance sheet activities. The ratio is defined as the amount of Available Stable Funding (the portion of capital and liabilities expected to be a stable source of funding), relative to the amount of Required Stable Funding (a function of the liquidity characteristics of various assets held).

In the EU, on November 23, 2016, the Commission published a legislative proposal to amend the CRR. The proposal defines, among other things, a mandatory quantitative NSFR requirement and which would apply two years after the proposal comes into force. The proposal remains subject to change in the EU legislative process. Therefore, the final definition of the ratio and associated implementation timeframe has not yet been confirmed.

3.3.13 Leverage Risk

The risk associated with the excessive use of leverage means the risk arising from the Bank's vulnerability to leverage or contingent leverage that may require unplanned corrective measures of the business plan, including the emergency sale of assets which could result in losses or reevaluation of the assets left.

Through its activity, OTP Bank Romania SA assumes exposure to leverage risk at a level that does not endanger the bank's profitability and capital.

In order to achieve this maximum and warning limits were established, the leverage risk indicator is including in the planning process, a methodology was established to calculate potential extra capital need for leverage risk, the indicator is monitored at ALCO and Directorate level.

During 2017 the leverage risk level has stayed within the approved limit (both maxim and warning limit).

The risk associated with the excessive use of leverage is monitored at a consolidated level. Due to the size of OTP Leasing there is no significant effect on the consolidated leverage risk indicator.

3.3.14 Management of the Operational Risk

The operational risk is the risk of loss resulting either from the use of processes, people and systems or inadequate internal not function properly fulfilled, or from external events, and includes legal risk.

Objectives

The objectives had in view in order to have a good management of the operational risk are:

- avoiding unexpected operational losses, with serious consequences for the business;
- avoidance of recording a large number of operational losses generating events, with low consequence on the activity of the organizational unit and a high probability of occurrence;
- improving operational efficiency inside the operational risk management process;
- increasing customer service quality;
- enhanced attention for the operational risk within the risk management activity frame;
- efficient management of information and human resources within the Bank;
- improvement of the system for reporting and monitoring the losses caused by the operational risk;
- assessment of exposure to operational risk based on the history of registered losses and permanent updating of the database on events that generate losses due to operational risk, reported by all organizational units;
- assessment of the activities and processes, products and systems by preparing annual self-assessments for the activities and processes carried out within all the organizational units with the view of reporting the risks already identified during the performance of the activities or of the potential risks and the control measures taken to mitigate or eliminate the risks.

  The self-assessment of the risks within the Bank is made annually based on the activities/ processes, and the responsible persons within the organizational units have to assess the operational risk for their own activities, the modifications and the effectiveness of the control measures based on a methodology issued by the Operational and Market Risk Department, with the involved Organizational Units. Also, action plans for the management of the identified issues may be drawn-up;
- Risk Management Committee Management Board and Supervisory Board shall be informed on the operational risks events that were reported by the organizational units towards Operational and Market Risk Department;
- permanent information of the Organizational Units over the decisions taken by the Risk Management Committee, the Management Board and the Supervisory Board related to the operational risk management;
- permanent monitoring of the key operational risk indicators; the key risk indicators are defined for various activities/ Banking processes, both individually and for the entire Bank.

  Their objective is to offer an accurate and global image over the operational risks evolution and development through monitoring the values and changes occurred. If necessary, based on them, it can be established the interventions that can be made at the activities/ processes level (e.g. staff turnover, complaints number, etc.);

- drawing-up plausible scenarios to establish plans for resuming or continuing the activity and for unforeseen situations.

  The business continuity plan is one of the tools used for the management of the operational risks. Considering the normal function of the Bank, mapping the support processes of the business has the role of identifying and classifying the processes critical for the Bank, making additional detailed risk analysis, together with organizational units, in order to maintain the sustainability of the process. Alternative solutions that can be applied in case of any failure of the critical resource are defined. The business continuity plan guides and coordinates the preparation, testing and updating of the unique action plans, adapted to changes occurred in the functioning of the Bank. The Bank implements this activity, based on a Group uniform methodology, granting a special attention to the communication in case of crisis that are to be applied in situations of crisis;
- presenting of case study describing the causes of loss events with a high consequence over the Bank's activity, identifying hidden risks and analysis of all necessary control measures to mitigate risks.

Strategy

The Bank's strategy for acquiring the objectives related to operational risk includes:

- the improvement of the operational risk management framework taking into consideration the requirements of AMA method for the calculation of operational risk capital requirement;
- periodic review of the regulatory framework for a good management of the operational risk within the Bank, development of new key risk indicators in order to use them for a better management of operational risks and connecting them to the specific and monitored activity;
- record keeping for the operational risks events reported at the Bank level within the database for operational risk management; operational risk loss events are recorded in an integrated IT system, with an uniform content at Group level, in compliance with the requirements of Basel III so the losses development and distribution can be analyzed and tracked continuously, based on a series of data, for longer periods of time and also, it can be identified the reasons that caused the losses. Operational risks database is updated whenever with new information related to risk events already reported and included within it;
- increased focus on the definition of risk mitigating measures, the monitoring of the execution and the improvement of the control environment by way of closer cooperation with organizational units engaged in risk management and control;
- establishing provisions for operational risk in order to minimize the impact generated by losses from operational risk events at the Bank level;
- permanent support offered to the organizational units when drawing-up their operational risk reports;
- informing the organizational units on the decisions made by the Risk Management Committee and the Management Board and the Supervisory Board, related to operational risk;
- assessment of exposure to operational risk based on losses history and permanent update of the database on loss generating events of operational risk, reported by the organizational units;
- assessment of the activities and processes, products and systems by preparing annual self-assessments for the activities and processes carried out within all the organizational units with the view of reporting the risks already identified during the performance of the activities or of the potential risks and the control measures taken to mitigate or eliminate the risks;
- preparing plausible scenarios to establish plans for resuming or continuing the activity and for unforeseen situations.

The business continuity plan and the Communication plan in case of crisis represent tools used for the management of the operational risks.

Management of the operational risk within the Bank is based on the responsibility of both Head Quarters and territorial units to identify, monitor and report any operational risk.

For a permanent assessment of the exposure to operational risk, OTP BANK ROMANIA S.A. has the following approaches:

- identification of the exposures towards the operational risk and monitoring of information and relevant data related to the operational risk including those of significant operational losses;
- Integration of operational risk management system into the risk management processes existing at OTP Group level. The results of operational risk management will be an integrant part of the monitoring and control of the Bank's operational risk profile;
- Development of internal reporting system, that provides monthly reports related to the operational risk to the management structures and management persons within the Bank.

The regulatory capital requirement for operational risk is determined in accordance with Regulation no. 575/2013 of the European Parliament and of the Council of the European Union on prudential requirements for credit institutions and investment firms.

The Bank determines the regulatory capital requirement to cover operational risk in line with the Basic Indicator Approach (BIA).

OTP Bank Romania S.A. targets a medium risk profile for its exposure to operational risk.

3.3.15 Management of the Reputational Risk

In order to avoid losses or to fail in achieving the estimated profits, due to the lack of trust of the clients or the potential clients in the Bank, we grant a special attention to the perception they have in the image of OTP BANK ROMANIA S.A.

Objectives

The objectives of management of the reputational risk are:

- avoiding losses or the failure in achieving estimated incomes as a result of events triggering reputational risks;
- avoiding the damaging, direct or indirect, of the Bank's reputation;
- improving the Bank's image;
- avoiding the disclosure of secret or confidential information;
- avoiding using internal/ professional/ secret/ confidential information by the Bank employees for personal benefits or to any other purpose that may have detrimental consequences in the Bank's or in its clients image;
- reducing the number of complaints from the clients and improving the flow for their solving.

Strategy

The Bank's strategy related to the reputational risk management includes:

- defines the image attributes of the Bank in fully accordance with the strategy and the values of the company;
- defines the methods to improve the Bank's image and their implementation;
- defines methods for assessing the Bank's reputation and their implementation;
- setting action plans for eventual reputational crisis situations and ensures their implementation in such conditions, if necessary;
- continuously training of the employees from the sales activity in all the aspects related to the Bank's products and services, so they can offer to the clients the necessary

information in order for them to make an informed, correct and in accordance with their needs decision in terms of acquisition or use of financial products and services offered by the Bank;

- periodically review of the internal regulations related to customer due diligence for the purpose of avoid entering into business relationships with clients having a fraudulent past, involved in terrorist acts, money laundering, major payment incidents, bad payers, and/ or involved in production or selling of forbidden substances and/ or illegal activities (such as production or selling outlawed narcotics, weapons and ammunition);
- automation, wherever possible, of the checks mandatory to be made when staring a business relationship, in order to prevent the enrolment of a clients from the above mentioned categories;
- development of the existing IT application in order to improve the process of identifying the suspicious transactions;
- establishing and developing the trust of shareholders/ customers;
- improving the relationship with the Bank's clients by correct, complete and timely information provided to them in respect of the new products and services, changes in the existing products portfolio and by communicating them all aspects that might have an influence on the activity performed through the Bank;
- Aligning the internal regulations and the Bank's activities to all the legal provisions applicable to the credit institutions. Changes affecting their status will be communicated to customers in accordance with legal requirements.
- increasing the customer loyalty;
- educating customers in order to achieve a behavior-oriented daily use products and Banking services;
- attracting the loyalty of the clients and providers;
- attracting resources/ investments necessary for the development in optimal conditions of the specific Banking activity;
- implementing the necessary measures to limit the unauthorized access to the Bank's resources, irrespective of their type;
- ability to recruit/ retain the best professionals;
- capital storage for reputational risk that protects from future crises etc.;
- preparing the plans for resuming or continuing the activity and for unforeseen situations. The business continuity plan is one of the tools used for the management of the reputational risk;
- drawing up plans in case of crisis communication in order to ensure the normal operation of business in entire Bank.

OTP Bank Romania S.A. targets a medium - low level of exposure to reputational risk.

3.3.16 Management of the Strategic Risk

Strategic risks are risks that affect or are created by the bank's business strategy and strategic objectives. They arise from the bank's inability to implement appropriate business plans, strategies, decisions, resource allocation and its inability to adapt to changes in its business environment. This risk is therefore a function of:

- the bank's strategic goals;
- the business strategies developed to achieve the goals;
- the resources deployed in pursuit of these goals and the quality of implementation;
- the resources needed to carry out business strategies.

Strategic planning process

OTP Bank România aims to put in place strategic plan(s) supported by realistic budget(s). Any strategic plan clarifies the bank's overall purpose, defines goals and priorities and determines practical approaches for achieving them.

If the strategic planning process is not appropriate or if the assumptions are not realistic, the strategic plan will be flawed thereby exposing the bank to the strategic risk.

In this regard, OTP Bank România aims to have an appropriate strategic planning process, encompassing the following:

- support or participation of the board, delegated committees, and senior management;
- participation of staff from various departments;
- adequacy of information in developing assumptions in relation to economic factors, position of the bank compared to competitors, current competitive position, future market trends and customer needs;
- consistency of the operational plans with the overall objective of the bank;
- assessment of actual performance against strategic plans.

Assessment of the occurrence of the strategic risk

In order to assess the occurrence of the strategic risk, the bank carried backward looking analysis on its strategic objectives from past years (3-5 years) and compares them with actual figures / ratios or other soft facts, non-quantifiable, for example:

- market penetration;
- product development;
- enhancement of certain qualities / attributes of the bank's product portfolio;
- segmentation of customers or of products;
- deployment of Group of local initiatives etc.

Capital requirements for strategic risk for OTP Bank România (individual and consolidated level)

One of the most important outcomes of a successful strategy, that reaches its goals, is to generate profit. The lack of profit or losses requires additional funds, usually from shareholders, in order to ensure the capital adequacy of the bank, Therefore, the occurrence of strategic risk could lead to capital requirements.

In order to determine the capital requirement for strategic risk the bank uses the underachievement of budgeted profits, on a country consolidated base according to Group definition. Although capital adequacy is monitored on a separate basis, for the stand-alone bank, from an economic perspective, the Group consolidated approach is more sensible, as it is the view of the whole Group and thus that of the bank itself.

In the actual vs. plan analysis special events that occurred due to market opportunities and that could not have been foreseen will not be taken into consideration (CHF conversion, gain from Millennium acquisition).

The bank examines the fulfillment of the plan on a quarterly basis for the last 5 years.

For each quarter between Q1 2013 and Q4 2017 a comparison actual vs. plan is made for profit before tax. A weight is distributed for each period (the more recent periods receive a higher rate as it is more relevant and the older periods receive lower weights).

The gap between actual and plan (in mil RON) are weighted for each quarter. The gaps for the analyzed period (2013-2017) are added up to **+31.9 million RON**.

For the calculation of the capital requirement for strategic risk for OTP Leasing (the subsidiary included in local consolidation), the actual differences versus budget for the last 4 years were analyzed. The calculation method is used to calculate the bank's capital requirement. The gap calculated for the analyzed period (2014-2017) is +**6.2 million** RON.

The capital required for strategic risk is calculated as the negative amount of the current difference versus the plan, so it only occurs if the realization was below the plan.

The positive result means that for the period under review the realization exceeded the plan, highlighting the lack of the capital requirement for the individual and consolidated strategic risk.

Risk categories

In order to determine the risk category that the calculated strategic risk falls in (low, medium, high) the capital requirement is calculated as a share out of own funds, the result will be categorized in the following risk categories accordingly:

<5% - low risk

5%-10% - medium risk

>10% - high risk

Calculation of capital requirement for strategic risk, exemplified for 2017 for OTP Bank România

Since the capital requirement for strategic risk in 2017 at the consolidated level is null, the strategic risk is low.

3.3.17 Management of the external risks of the credit institution

Macroeconomic crisis simulations are a forward-looking exercise whose purpose is to estimate incomes, potential losses and capital requirements under two crisis scenarios (two macroeconomic - one being more severe than the other, one internal and one combined).

Thus, in 2017, macroeconomic crisis simulations were conducted over a three-year horizon (2017-2019), **and available capital is sufficient to cover the capital requirement**, taking into account the minimum solvency ratio (SREP) at individual level.

It should be emphasized that these capital requirements are determined before applying any measures to supplement the own funds or reduce the risks to which the bank is exposed.

In the event of any unfavorable scenario, the bank will take preventive risk mitigation measures (risk-weighted assets and other risk mitigation techniques) as well as additional capital measures.

However, in addition to raising capital, the bank will look into if a more drastic scenario can become real, all possible ways of raising own funds and reducing additional provisions (one way would be to shut down unused facilities to reduce additional capital including, if possible, analyzing the possibility to sell the collateral covering the related exposures, the sale of fixed assets of the bank that have no direct impact on the bank's business development).

Macroeconomic crisis scenarios include values of the macroeconomic indicators that have the most impact on the profitability of OTP BANK ROMANIA S.A., such as EUR / RON exchange rate, LIBOR CHF, ROBOR, unemployment rate and others.

The steps taken to estimate the implications for OTP BANK ROMANIA S.A. in the crisis simulations are the following:

1. identification of risk factors;

2. generation of macroeconomic scenarios;
3. estimating the evolution of non-performing loans;
4. estimating the cost of risk, provisions and risk weighting factors;
5. assessing the impact on profitability and on the adequacy of capital.

The results of the crisis simulations are reported to the Risk Management Committee that analyzes and approves these results. Follow-up to the discussions in this Committee:
• inform the Bank's Board of Directors of the results of the macroeconomic crisis simulation;
• it may decide to inform the Assets and Liabilities Committee, which, according to its attributions, may propose remedies to be approved by the Bank's Directorate

3.3.18 Encumbered and unencumbered assets

	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets of the reporting institution			9.151.762.865	
Equity instruments			7.355.360	7.355.360
Debt securities			587.933.836	587.933.836
Other assets			8.556.473.669	

At 31.12.2017 the Bank did not have any encumbered assets.

4. OWN FUNDS AND CAPITAL REQUIREMENTS

➢ **Own Funds**

At 31.12.2017 the level 1 own funds value was 960.772.548 RON and 968.847.897 RON at consolidated level. (The situation of own fund is presented in Annex 2).

The bank included in the prudential perimeter OTP Leasing, in which it owns a shareholding of 59.99% for the social capital and for which the prudential consolidation conditions provided by Regulation no 575/2013 art 19 were fulfilled. Prudential consolidation has been done through the global consolidation method.

For the consolidation for accounting purposes, the Bank applied the exception provided in the Financial Reporting Standard 10 Consolidated - Financial Statements para a (point IV), OTP Leasing being included in the consolidated financial statements of the parent company OTP BANK Nyrt.

OTP BANK ROMANIA S.A. does not have hybrid equity instruments, instruments whose provisions provide for a redemption incentive or instruments that are subject to the transitional regime.

On December 31, 2017, OTP BANK ROMANIA S.A. has calculated its own funds in accordance with Regulation 5/2013 of the National Bank of Romania on prudential requirements for credit institutions and Regulation (EU) 575/2013 on the own funds of credit institutions and investment firms with subsequent amendments and completions.

The value of the tier own funds and the Capital requirements for the credit, market and operational risks

a) Consolidated values

At the end of 2017 OTP BANK ROMANIA S.A. registered a level of own funds of about 968,847,897 RON, the equivalent of 207,92 mil EUR, which covered the capital requirement (solvency ratio at December 31, 2017 was about 15.49%):

- for the credit risk determined by the standard method (requirement stood at 435.84 mil RON);
- for the market risk determined by the standard method (requirement stood at 0.03 mil RON);

and the operational one determined by the standards method (requirement stood at 64.64 mil RON).

b) Individual values

At the end of 2017 OTP BANK ROMANIA S.A. registered a level of own funds of about 960,772,548 RON, the equivalent of 206.19 mil EUR, which covered the capital requirement (solvency ratio at December 31, 2017 was about 15.90%):

- for the credit risk determined by the standard method (requirement stood at 419.36 mil RON);
- for the market risk determined by the standard method (requirement stood at 0.03 mil RON);

and the operational one determined by the standards method (requirement stood at 64.03 mil RON).

➢ ***Information on the minimum capital requirements***

For calculating the capital adequacy to risks, the treatment of the credit risk is made in accordance with the standard approach provided by the EU Regulation 575/2013 of European Parliament and Board from June 26, 2013 regarding prudential requests for credit institution and investment firms and modification of EU Regulation no. 648/2012. For the calculation of the minimum capital requirements related to the position, operational and foreign currency risks, the Bank uses the standard approach.

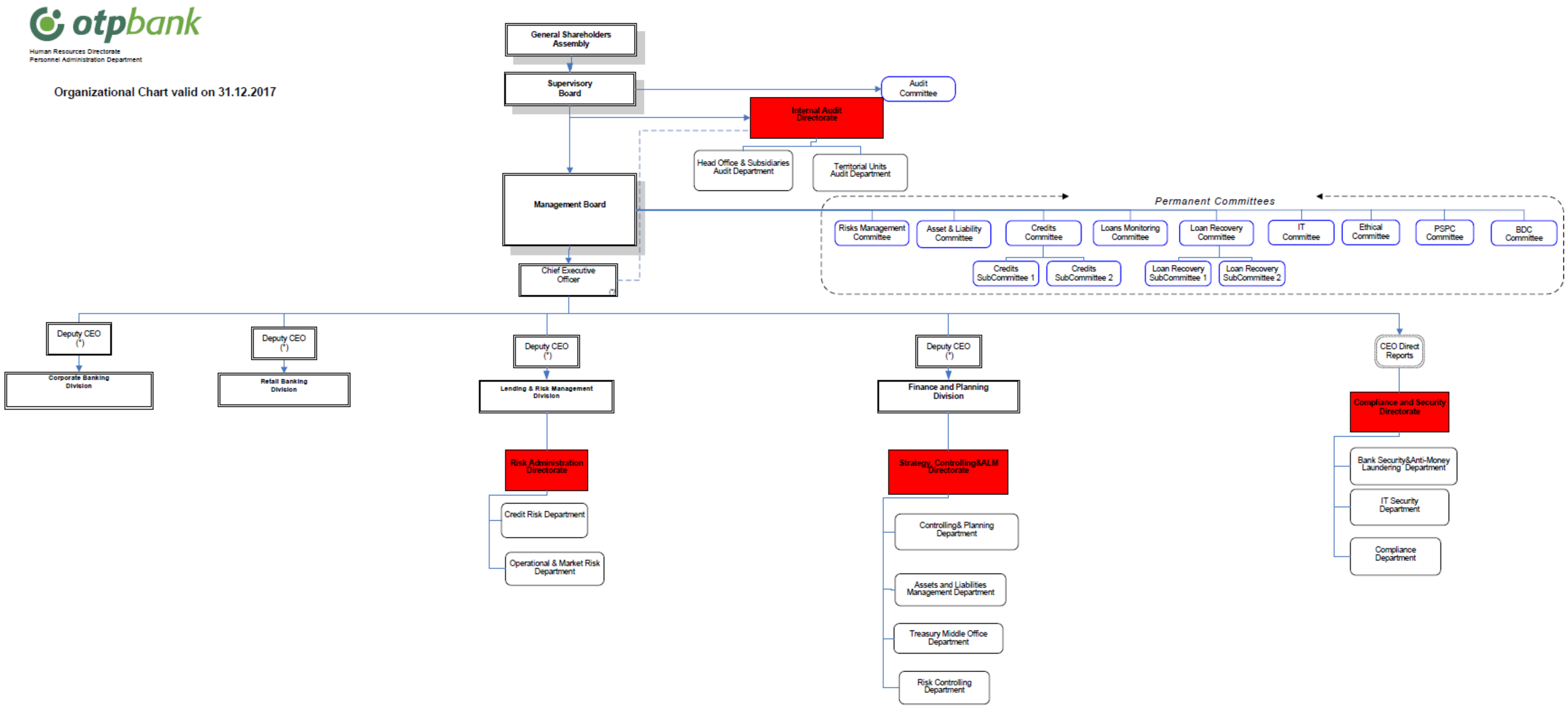
For the purpose of calculating the additional capital requirement, OTP BANK ROMANIA S.A. evaluates quarterly the capital requirements for the non-regulated risks. In the internal process for assessing the capital adequacy to risks, OTP BANK ROMANIA S.A. uses both quantitative and qualitative approaches.

In the process of evaluating the capital adequacy to risks, OTP BANK ROMANIA S.A. shall prepare annually a plan regarding the capital, approved by the management body. This plan will include estimated capital requirements according to business objectives proposed by the Bank for that year. This plan will be updated whenever will be anticipated situations where, due to changes of the business environment and/ or strategic objectives of the Bank, the capital required for carrying out the Banking activity no longer meets the minimum requirements.

➢ ***Internal capital adequacy assessment***

The process of capital adequacy to risks within OTP Bank Romania SA covers both risks for which the Romanian National Bank requires capital allocation and risk which are internally assessed in order to have an adequate internal capital in relation to the risk profile of the bank. The ratio between total capital requirement and regulated capital requirement at 31 December 2017 is 131.14% at consolidated level. The main categories of risks followed are: credit risk, operational risk, residual risk, concentration risk, risks which arise from the activity of granting loans in FX to the debtors which are exposed to foreign currency risk, liquidity risk, reputational risk, stress test component (including external risks to the credit institution) and interest rate risk.

Annex 1 - The organizational structure of OTP Bank Romania S.A.



* Only the structures of the bank with a role in exercising control functions are highlighted in the organizational chart.

(*) Member of the Management Board

Annex 2

Own funds disclosure template			
Common Equity Tier 1 (CET1) capital: instruments and reserves		**Individual**	**Consolidated**
1	Capital instruments and the related share premium accounts	1,254,252,792	1,254,252,792
	Of which: Instrument type 1	1,254,252,792	1,254,252,792
	Of which: Instrument type 2	-	-
	Of which: Instrument type 3	-	-
2	Retained earnings	(275,370,651)	(266,967,531)
3	Accumulated other comprehensive income (and other reserves)	43,316,086	43,316,086
3a	Funds for general banking risk	4,763,367	4,763,367
4	Amount of qualifying items reffered to Article 484(3) and the related share premium accounts subject to phase out from CET1)	-	-
5	Minority interests (amount allowed in consolidated CET 1)	-	-
5a	Independently reviewed interim profits net of any foreseeable change or dividend	-	-
6	**Common Equity Tier 1 (CET 1) capital before regulatory adjustments**	**1,026,961,594**	**1,035,364,714**
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	(379,401)	(379,401)
8	Intangible assets (net of related tax liability) (negative amount)	(19,605,813)	(19,933,584)
10	Deffered tax assets that rely on future profitability excluding thosearising from temporary differences (net of related tax liability where the conditions of Article 38 (3) are met) (negative amount)	(25,010,571)	(25,010,571)
11	Fair value reserves related to gains or losses on cash flow hedges	-	-
12	Negative amounts resulting from the calculation of expected loss amounts	-	-
13	Any increase in equity that results from securitised assets (negative amount)	-	-
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-	-
15	Defined-benefit pension fund assets (negative amount)	-	-
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	-	-
17	Direct, indirect and synthetic holdings of the CET 1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the	-	-

	institution (negative amount)		
18	Direct, indirect synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in thise entities (amount above10% threshold and net of eligible short positions) (negative amount)	-	-
19	Direct, indirect or synthetic holdings by the institution of the CET 1 instruments of financial sector entities where the institution has a significant investment in those entities (amounts above 10%threshold and net of eligible short positions) (negative amount)	-	-
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	-	-
20b	of which: qualifying holdings outside the financial sector (negative amount)	-	-
20c	of which: securitisation positions (negative amount)	-	-
20d	of which: free deliveries (negative amount)	-	-
21	deffered tax assets arising from temporary differences (amount above 10%threshold, net of related tax liability where the conditions in Article 38(3) are met) (negative amount)	-	-
22	Amount exceeding the 15% threshold(negative amount)	-	-
23	of ehich: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	-	-
24	Empty set in the EU	-	-
25	of which: deffered tax assets arising from temporary differences	-	-
25a	Losses for the current financial year (negative amount)	-	-
25b	Forseeable tax changes relating to CET 1 items (negative amount)	-	-
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	(21,193,261)	(21,193,261)
28	**Total regulatory adjustments to Common Equity Tier 1 (CET 1)**	(66,189,046)	(66,516,817)
29	**Common Equity Tier 1 (CET 1) capital**	**960,772,548**	**968,847,897**
Additional Tier 1 (AT1) capital: instruments			
30	Capital instruments and the related share premium accounts	-	-
31	of which: classified as equity under applicable accounting standards	-	-
32	of which: classified as liabilities under applicable accounting standards	-	-
33	Amount of qualifying items reffered to in Article 484 (4) and the related share premium accounts subject to phase out from AT 1	-	-
34	Qualifying Tier 1 capital included in consolidatet AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held buy third parties	-	-

36	**Fonduri proprii de nivel 1 suplimentar (AT1) înaintea ajustărilor reglementare**	-	-
Additional Tier 1 (AT1) capital: regulatory adjustments			
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amounts)	-	-
38	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector etities where those entities have reciprocal cross holding with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	-
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	-
40	Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	-	-
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	-	-
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	-	-
44	**Additional Tier 1 (AT1) capital**	-	-
45	**Tier 1 capital (T1 = CET1 + AT1)**	**960,772,548**	**968,847,897**
Tier 2 (T2) capital: instruments and provisions			
46	Capital instruments and the related share premium accounts	-	-
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	-	-
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	-	-
49	of which: instruments issued by subsidiaries subject to phase out	-	-
50	Credit risk adjustments	-	-
51	**Tier 2 (T2) capital before regulatory adjustments**	-	-
Tier 2 (T2) capital: regulatory adjustments			
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	-	-
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	-
54	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	-

55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	-	-
57	**Total regulatory adjustments to Tier 2 (T2) capital**	-	-
58	**Tier 2 (T2) capital**	-	-
59	**Total capital (TC = T1 + T2)**	**960,772,548**	**968,847,897**
60	**Total risk weighted assets**	**6,042,821,590**	**6,256,335,746**
Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	15.90%	15.49%
62	Tier 1 (as a percentage of total risk exposure amount)	15.90%	15.49%
63	Total capital (as a percentage of total risk exposure amount)	15.90%	15.49%
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of risk exposure amount)	461,067,287	539,921,775
65	of which: capital conservation buffer requirement	75,535,270	78,204,197
66	of which: countercyclical buffer requirement	-	-
67	of which: systemic risk buffer requirement	-	-
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	-	62,563,357
68	Common Equity Tier **1 a**vailable to meet buffers (as a percentage of risk exposure amount)	499,705,261	428,926,122
Amounts below the thresholds for deduction (before risk weighting)			
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	-	-
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	-	-
	Empty set in the EU	-	-
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	-	-
Applicable caps on the inclusion of provisions in Tier 2			
76	Credit risk adjustments included in T2 in respect of exposures subject to stan¬dardised approach (prior to the application of the cap)	-	-
77	Cap on inclusion of credit risk adjustments in T2 under	-	-

	standardised approach		
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	-	-
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	-	-
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)			
80	— Current cap on CET1 instruments subject to phase out arrangements	-	-
81	— Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	-
82	— Current cap on AT1 instruments subject to phase out arrangements	-	-
83	— Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	-
84	— Current cap on T2 instruments subject to phase out arrangements	-	-
85	— Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	-